

## Case Study – London Highways E-Auction for Street Lighting

Strap line: *Delivering cashable savings from procurement and commissioning*

### Summary

Recent tests by the Transforming London Highways Management (TLHM) and Transport for London (TfL), has proven that the e- Auction is an effective way of reducing unit costs while retaining appropriate quality standards. The TLHM, which modernises procurement arrangements for highway maintenance across London's 33 boroughs, and TfL, were keen to test the ability of e-Auctions to deliver cashable savings in the acquisition of lamps, columns and electrical testing and inspection.

Although the volumes put forward for testing were limited, they found that the 19 authorities that took part could make cashable savings of around £270k a year. A Return on Investment (ROI) of at least 11:1 This would increase to £500k a year if all 34 authorities took part, with an ROI of 20:1.

### What happened?

The concept of using the e-Auction was initially proposed by Transforming London's Highway Management board members, Ken Cole (Capital Ambition) and Zerrin Lovett (Cabinet Office Efficiency and Reform Group), as a potential way of substantially reducing costs. They then approached Keith Gordon at the West Midlands Regional Improvement and Efficiency Programme (WMREIP), who were also interested in carrying out similar testing.

Keith explains: "*We had been looking to do this for some time, so the London approach was timely. We decided that the Eastern Shires Purchasing Organisation (ESPO) was the best placed to undertake this exercise at the end of 2010 and went about producing the common specifications.*"

TLHM's Programme Director, Chris Tunstall said, "*we looked at the market for each area and the wide variation of unit costs that individual London authorities were paying for identical equipment and this fitted the criteria exactly for an e-Auction.*"

The competition process took place in 2011 culminating in an e-Auction in August 2011. Three London Frameworks were put in place to meet the requirement:

- **Lamps – ESPO contract 59** – Four framework suppliers with prices for premium and alternative grade 35, 55, 90, 135W SOX and 50, 70, 100, 150, 250W SON. There are no extra over charges.  
Based on an analysis of returns of existing authority prices for the most commonly used lamp - 70watt SON directly **comparable savings of 13% can be achieved with an average saving of 10%.**
- **Columns – ESPO contract 257A** – Four framework suppliers for London with prices for 5, 6, 8, 10 and 12m Columns (post top column only, no bracket arms) for 5 column types, extra light XL through to extra heavy XH. There are extra over charges for differing paint finishes, bitumen coated root and root types with a minimum quantity surcharge for fewer than 50 column orders.
- As most authorities purchase columns with bracket arms direct price comparisons are difficult however for directly comparable columns **savings of between 13 and 27% can be achieved.**
- **Electrical Testing and Inspection – ESPO contract 314** - 6Sixframework suppliers with additional prices for structural testing, cleaning, data collection and various different types of

repair. The prices are volume related so can attract significant volume discounts depending on the size of the order.

From analysis of previous returns ***an average saving of 40% can be achieved based on the lowest tender price received with a still healthy 20% on the second cheapest rate*** (based on orders of 1500+ units)

## **Joining the contract?**

The contracts are for two years from September 2012 for Lamps and Columns and December 2012 for Electrical Testing and Inspection, with a possible two year extension. The contract is open, at no charge, to all London local authorities including the City of London and TfL . Details can be obtained by either registering on the ESPO website or by contacting the relevant ESPO contact in the contact details below.

Where authorities have a works contract with a contractor for the maintenance of street lighting that includes the supply of the lamp/ column, the framework allows for the works contractor to access the framework agreement on the same terms and conditions.

Further competition for the provision of alternative lamps can simply be undertaken by securing formal quotations from some or all of the suppliers listed on the framework agreement.

There is no need to go through the Notice and PQQ process again as the Framework suppliers have already been through a rigorous tender and evaluation procedure to ensure value for money and fitness for purpose.

## **What next?**

The e-auction was a great success, but there are opportunities to do even better as experience with other categories such as commercial fleet has shown. Zerrin Lovett from ERG said, *“many authorities struggled to provide unit costs, particularly where they used works contractors. This is a well known area where significant mark ups can be, and are made, through inadequate pricing transparency.”*

There is also an opportunity to create wider e-auction enabled frameworks so that highways organisations in local government can link with the central government Highways Agency to standardise on material ranges and aggregate volumes. TLHM is already exploring this possibility and moving in the future to a winner takes all approach. Chris Tunstall explained that, *“e-Auctions that use this approach tend to get even keener pricing as volumes are larger.”* He added, *“we have proved beyond doubt that e-Auctions must feature in the thinking of any local authority whether they are an in-house operation or fully outsourced. Relying on contractors to aggregate requirements and then pass on reduced costs is not an option for savings delivery. In the new London Highways Alliance Contract we’ve overcome this by requiring contractors in future to use e-auctions where savings can be shown to be achieved.”*

## **Contacts**

**ESPO** [www.espo.org](http://www.espo.org)

**To register** go to [www.espodealingdirect.org/sign-up.aspxemail](http://www.espodealingdirect.org/sign-up.aspxemail) or [marketing@espo.org](mailto:marketing@espo.org) or 0116 2657927/ 0116 2944026

**To discuss specific contracts:**

Lamps – Glenn Clarke (ESPO Buyer) [g.clarke@espo.org](mailto:g.clarke@espo.org) 0116 265 7898

Columns – Gareth Smith (ESPO Senior Buyer) [gr.smith@espo.org](mailto:gr.smith@espo.org) 0116 265 7890

Electrical Testing & Inspection - Louise Gallagher (ESPO Senior Buyer) [l.gallagher@espo.org](mailto:l.gallagher@espo.org) 0116 294 4070

**TLHM** <http://www.lgtag.com/index.php/projects-public>

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