

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Cabinet

Date: 10/10/2022

Subject: Procurement Strategy for the Delivery of Full Restoration and Strengthening of Hammersmith Bridge

Report of: Cabinet Member for Public Realm - Councillor Sharon Holder

Report Author: Ian Hawthorn, Assistant Director Environment Special Projects and Highways

Responsible Director: Bram Kainth, Strategic Director Environment

SUMMARY

Hammersmith Bridge (a Grade II* listed building) is one of the oldest suspension bridges in the world and is a unique part of our national engineering heritage. It re-opened to pedestrians, cyclists and river traffic on 17 July 2021. The bridge is currently closed to vehicular traffic and the Council is working to deliver and secure funding for a solution that will ensure its reopening and its future maintenance.

In order to maintain expeditious progress, the Council commissioned independent external advice on the design solutions for the stabilisation of Hammersmith Bridge and the preferred option was approved by the Leader of the Council on 16 August 2021. The contract for the stabilisation project was awarded by Cabinet on 6 December 2021. Further essential works leading to the full restoration of the Bridge were approved by Cabinet (March 2022) and the work has now been commissioned.

All the above costs and those historically incurred in ensuring the continued safe operation of the Bridge and developing the future restoration will be included in the overall project and are expected to be funded equally by The Department for Transport (DfT), Transport for London (TfL) and LBHF.

It is important that progress is maintained and the Council has set out the following aspirations and plans with regard to the future:

- that the Bridge is fully restored at the earliest opportunity (and made accessible to all users including motorised traffic whilst also promoting the Climate Change Agenda)
- that the future governance arrangements support efficient and sustainable operation, maintenance and stewardship of the Bridge for the benefit of future generations (this could include the potential operation of the bridge through an independent trust or another mechanism)
- provides an equitable funding solution for LBHF residents with construction costs (after expected contributions from DfT and TfL) and operational costs met through the proceeds from a road user charging scheme or toll order (in this report, for convenience, reference is made to charges) – ensuring that the costs of the restoration and ongoing maintenance are funded by those who benefit directly from using the Bridge.

An initial report setting out the potential future Delivery Models and considerations was presented to Cabinet in July 2021. This report develops this further and sets out the Procurement Strategy for the full restoration of the Bridge to deliver the aspirations set out above (the delivery options are detailed and appraised in the report).

RECOMMENDATIONS

1. That Appendix 1 to this report is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) and information in respect of which a claim to legal professional privilege could be maintained in legal proceedings, as set out in paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 (as amended).
2. To approve the Procurement Strategy for the full restoration of Hammersmith Bridge.
3. To approve the overall procurement timetable and proposed evaluation framework (set out in Sections 7 and 10 in the Detailed Analysis of the Report).
4. To note the financial matters set out in the Financial Impact Section of the Report.

Wards Affected: All

Our Values	Summary of how this report aligns to the H&F Values
Building shared prosperity	The full restoration of the Bridge will continue to promote the confidence of residents and businesses that are based in the Borough and will support continued future economic growth
Doing things with local residents, not to them	The project will be undertaken with extensive public engagement through public meetings and media
Being ruthlessly financially efficient	The completion of the full restoration will minimise future financial risks to the Council on the future maintenance, major repairs and day to day operation of the new Bridge
Taking pride in H&F	The full restoration of a historic asset that is much valued and appreciated by residents will promote local pride
Rising to the challenge of the climate and ecological emergency	The restored Bridge is expected to reduce carbon emissions and improve air quality by reducing the additional diversion mileage that former users are incurring.

	The proposed road charging scheme will provide concessionary charges for electric and low emission vehicles – the first such scheme of its kind in London.
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Financial Impact

The restoration of the Bridge is expected to require funding of up to £130m (this will depend on the outcomes of the procurement and may be affected by the current national economic inflationary pressures, general cost of materials and the expected start date of the construction works).

The total cost of up to £130m includes costs that have been incurred since 2019/20 in ensuring the continued safe operation of the Bridge, development costs (for both the Stabilisation Project and the full Restoration Works) and specialist external advisory services to comply with the regulatory and governance requirements of DfT.

It is expected that these costs will be shared equally by DfT, TfL and LBHF as set out in the Memorandum of Understanding, with the LBHF portion of costs being ultimately funded from bridge users through charges.

The financial implications relating to affordability and future long-term sustainability of the Bridge will be set out clearly in a further contract award report (pending the outcomes of the procurement and evaluation/selection of the preferred delivery model).

The costs of completing the proposed procurement will be contained within the budget allocated and incorporated in the total cost approved by Cabinet on the 7th March 2022 (Hammersmith Bridge - Essential Works Leading to the Strengthening and Restoration Project). These costs will also be incorporated in the total project costs and shared by all parties.

Kellie Gooch , Head of Finance (Environment), Dated 16 August 2022
Verified by: Sukvinder Kalsi, Director of Finance, Dated 16 August 2022

Legal Implications

The proposals set out in the report will enable a procurement exercise to begin to select a contractor to carry out the works of restoration and strengthening necessary for the bridge to reopen to vehicular traffic.

The recommended delivery model is for a design, build, finance, and manage (DBFM) contract which will mean that the contractor will raise private finance to undertake the element of the works which will be paid for by the Council, taking into account the payments to be made by TfL and DfT.

The Council's payments would not begin until the works had been completed.

With these factors in mind, it is recommended that **Competitive Procedure with Negotiation** option is selected. This procurement approach was used on Silvertown Tunnel.

Background Papers Used in Preparing This Report - None

DETAILED ANALYSIS

Shortlisting of Delivery Model Options

1. LBHF, supported by external advisers, has explored a number of potential commercial delivery models (“Delivery Model Options”) for the restoration and long-term maintenance of Hammersmith Bridge. A long list of potential Delivery Model Options was identified and assessed against a set of objectives developed in discussion between officers and external advisers. This work was described in the Cabinet Report presented on 5 July 2021 which identified a shortlist of Delivery Models including:
 - Design and Build Model (D&B)
 - Design, Build, Finance and Maintain Model (DBFM)
 - Concession Model (CM)
2. Further, more detailed analysis has subsequently been carried out following: (1) legal advice on the options for implementing a toll or road user charge; (2) initial results from traffic and revenue forecasting analysis; and (3) feedback received through a market consultation exercise completed in July 2022.
3. The analysis concluded that the Concession Model should be discounted, in particular for the following reasons:
 - Market feedback was very clear that there was little to no appetite for this approach
 - LBHF has received legal advice that ceding price control of the toll or charge to a Concessionaire under the Concession Model may not be possible under applicable legislation
 - The inability for a Concessionaire to make and levy charges on its own behalf and the lack of appetite for a concession approach mean the model is likely to require certain guarantees from LBHF in respect of toll/charge income – effectively transferring the risk back to LBHF
4. The remaining shortlisted Delivery Model Options which are considered in the remainder of this report are therefore the D&B and the DBFM approaches.
5. Further details of the analysis of these options are set out in the Final Delivery Model Options report dated 22 August in Appendix [1].

Shortlisted Delivery Models

6. **The D&B Model** involves the procurement by LBHF of a single contractor to design and deliver the restoration works. It is assumed that LBHF’s share of the costs (after funding contributions from DfT and TfL) would be financed through borrowing. This would be a traditional construction contract with a number of standard industry terms and

conditions. Some incentives can be placed on contractors to deliver on time and on budget e.g. liquidated damages for late delivery and typically the majority of cost overruns will be absorbed by the private sector but LBHF may be exposed to certain cost overruns arising from certain risks. LBHF would remain responsible for the future operation and maintenance of the restored Bridge. LBHF could procure a separate maintenance contract for the future operation and maintenance of the bridge. However, it may be challenging to pass long-term maintenance risk to the market without certain protections or warranties provided by LBHF for potential deficiencies in the design and restoration works. The ongoing operational costs would be funded by the road user charge income generated, directly financing the operational cost, repaying the cost of renovation and providing a fund for future maintenance. It would be relatively difficult for a trust or other independent body to be established to take over responsibility for the bridge in respect of monies received in charges and hence ring-fenced for maintenance, operation, and future operation and maintenance as revenue would always pass through the hands of the Council, the risk would remain that it would be applied to other purposes.

7. **The DBFM Model** would see LBHF enter into a single, integrated contract with a private sector investor to design, renovate, finance and maintain the bridge over a predetermined duration (typically between 25 and 30 years for construction works of this type). A typical project finance contractual structure is envisaged where the successful bidder would set up a special purpose vehicle (SPV) to secure finance by way of limited recourse debt to meet the project development, design and construction costs. The SPV would recover delivery and debt financing costs via contractual payments from LBHF. Such payments (referred to as Availability Payments) would be predicated upon the availability, as defined in the contract, of the bridge to traffic, subject to the SPV achieving specified performance standards. The SPV would be responsible for maintaining the bridge and handing it back at the end of the contract to a contractually defined standard. Funding contributions from DfT and TfL could be paid to the SPV as milestone payments at defined points during the construction period or at the completion of the Strengthening Works – reducing the long-term financing requirement and the Availability Payment payable by LBHF. Availability Payments would be expected to commence after the completion of the works and would be funded by user charging income generated. The DBFM involves a binding long term contractual commitment with a third party to take the full responsibility and risk of operating and maintaining the bridge, potentially making it more straightforward than under a D&B to transfer future responsibility for the bridge to a trust or other independent body.

Key Strategic Considerations in Determining the Preferred Delivery Model

8. There are a wide range of decision-making risks that need to be considered in selecting the preferred Delivery Model and these are summarised in the tables below.
9. The allocation of key risks under each of the models is summarised in the table below. The DBFM model transfers substantially more long term risk to the contractor than the D&B approach.

Risk Allocation	Design & Build	Design, Build, Finance & Maintain
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Design Risk	Shared	Contractor
Construction Risk	Contractor*	Contractor
Operations Risk	Council	Contractor
Performance Risk	Council	Contractor
Maintenance Risk	Council	Contractor
Finance Risk (component not funded by DfT/TfL grant)	Council	Contractor
Road Charge Income (or Toll)	Council	Council**

**LBHF may still be exposed to some level of cost overruns (e.g. under a target price contract). The risk of issues emerging in the future due to deficiencies in the design and restoration works is held by LBHF (outside a limited warranty period).*

*** Availability deductions will reduce the amount that needs to be paid to the SPV during times when user charging income will also be reduced (i.e. when the bridge is closed) mitigating the financial impact on LBHF of loss of charging income due to unavailability.*

10. In addition, to the above risks, there are other wider strategic factors that need to be considered in relation to both the initial restoration and the future operation and maintenance of the Bridge. The table below provides a summary assessment of the options against key strategic considerations (scoring matrix: 1 = Likely Best, 2 = Least Good).

Strategic Considerations	Design & Build	Design, Build, Finance & Maintain
Commercial contract	Complex (Construction Only)	Complex (Construction & Operation)
Establishing a trust or independent body responsible for future operation	Unlikely	Possible
Market appetite	Good	Good
Procurement timescale	1	2
On-time and on-budget delivery	2	1
Optimising risk transfer and long-term governance	2	1
Whole life cost optimisation	2	1
Cost of finance	1	2
Minimising financial risk and maximising asset availability	2	1
Operational Flexibility	1	2

Market Consultation Exercise

11. A market consultation exercise was carried out in July 2022 to seek feedback from the market on the proposed commercial delivery model options. This involved LBHF holding one-to-one sessions with 19 participants including contractors, contractor developers, and financial investors with relevant experience of constructing and/or financing major infrastructure projects.
12. Overall there was high interest in bidding for the project under both DBFM and D&B approaches. Participants' expressed preference between the DBFM and D&B Options

was largely aligned to the type of participant and their organisation's capabilities and business focus.

Role of a Charitable Trust/ Body

13. LBHF has publicly indicated that it is interested in the role a charitable trust or other similar independent body could play in delivering the project and the possibility of transferring the Bridge to a trust or similar charitable body in the long-term.
14. LBHF's external legal advisor has developed an advice paper which considers the possibility and process of setting up a charitable body, the potential role that a charitable body could play under each of the Delivery Model options and the viability of transferring the bridge to a charitable body in the future.
15. Under the DBFM a charitable body could be interposed between LBHF and the SPV so as to manage the distribution of toll/charge revenue and the performance of the SPV or it could have a role in managing the SPV. An example of this management arrangement can be seen in the Mersey Gateway Crossings Board Ltd which was set up by Halton Borough Council to administer and oversee the construction, operation and maintenance of the new tolled crossing. This structure may enable LBHF to gradually step back from engagement with the SPV and general management of the bridge with the ultimate aim that the charitable body is able to manage the operation and maintenance of the bridge at the end of the DBFM period.
16. Under the D&M model LBHF will be responsible for the future management and maintenance of the Bridge. LBHF could procure a separate maintenance contract however, this is likely to be for a much shorter duration than the DBFM model and LBHF may be required to take the risk or provide warranties to the contractor for any deficiencies in the design and restoration works. The interposition of a charitable body into these contractual arrangements could further complicate the process as there would be a number of such warranties and it will be harder to assure the standard of maintenance of the bridge. Under this structure the role of the charitable body would (over time) become the overseer of the activities of the Council (i.e. toll collection).
17. In terms of the potential risks and the likelihood of successfully transferring responsibility for the operation and maintenance of the bridge to an independent body, LBHF's external legal and financial advisors recommend that, on balance, the DBFM would be more intrinsically suited to a situation involving a trust or similar charitable body than a D&B.

Recommendation on Delivery Models

18. This report concludes, that on balance, entering into a long-term DBFM contract demonstrates the best potential to deliver against LBHF's objectives. The key factors driving the assessment in favour of the DBFM model includes the following:
 - A greater likelihood of on-time and on-budget delivery
 - Stronger incentives to optimise whole life cost and asset value
 - Greater transfer of long-term operational risks with an appropriate and locked-in level of maintenance
 - More intrinsically suited to transferring long term responsibility for the bridge to a trust or similar charitable body

19. It is important to acknowledge the key disadvantages or trade-offs in relation to the DBFM delivery model. These are:
- **Procurement timeframes.** The procurement process under a DBFM is expected to take longer than a D&B (potentially by 3 to 9 months) due to the inclusion of long-term maintenance in the contract and the inclusion of finance providers in the procurement process. Feedback from the market consultation exercise showed that participants thought a 12 to 18 month procurement timeframe was deliverable for both delivery models. Participants with a preference for the DBFM option noted that they would expect it to be closer to 18 months in practice noting the importance of detailed preparation before launching the procurement. However, the need to conduct the procurement process in parallel with the legal process to obtain the powers to impose a toll or road user charge on the bridge, which is on the critical path, is likely to erode some of the potential procurement programme benefits of the D&B option over the DBFM option.
 - **Affordability and financial risk.** The DBFM model involves LBHF entering into a long term contract with the private sector whereby LBHF agrees to make contractual payments to the private sector counterparty predicated on the bridge being available to traffic and performance against set standards. The risk that the toll or road user charge is insufficient to meet the contractual payments will sit with LBHF. It is therefore important that the traffic and revenue analysis shows sufficient headroom over and above the forecast contractual payments under a DBFM structure to give the council comfort that the contractual payment will remain affordable in the future. Initial traffic and revenue forecasting and financial modelling suggests there is expected to be sufficient headroom, even under a range of downside scenarios. However, further, more detailed affordability analysis will need to be undertaken as part of the development of the project's business case to be submitted to DfT and TfL.
20. This report recommends that the DBFM option is taken forward as the preferred option subject to confirmation through ongoing quantitative analysis being carried out as part of the business case development, that the project is expected to remain affordable under a range of downside scenarios.

Contract Period

21. The contract period for a DBFM, including the future operations and maintenance, is likely to range between 20 and 30 years. It is noted that the majority of participants that expressed a preference for a DBFM delivery model in the early market consultation exercise stated an optimal contract duration of 25 years. The commercial terms of these contracts will be established through the procurement processes.

Procurement Route - Analysis of Options

22. There are number of potential options available to the Council to procure the restoration and future operation of the Bridge. These include:
- Open Procedure
 - Restricted Procedure
 - Innovation Partnership

- Negotiated Procedure (without prior advertising)
- Competitive Procedure with Negotiation
- Competitive Dialogue

23. The restoration of the Bridge (in particular) will be complex with exacting technical and engineering challenges and requirements. The future operation will be less complicated to some extent (although there will still be annual maintenance requirements and periodic major upgrades/refurbishments). It also allows a constructive dialogue on dealing with technical engineering, financial and commercial concerns from prospective bidders.
24. With these factors in mind, it is recommended that Competitive Procedure with Negotiation option is selected. These procurement approaches were used on the Silvertown Tunnel.

Indicative Procurement Timetable

25. The selection of the preferred Delivery Model and the completion of the restoration of Hammersmith Bridge will be complex and the overall timetable is set out in the table below:

Activity	Target Date
Completion of Initial Market Engagement	August 2022
Approval by Cabinet of Procurement Strategy	October 2022
Completion of Essential Pre-Restoration Works (Design, Geo-Technical, Loading)	April 2023
Submission of Stage 2 Outline Business Case to DfT	December 2022
Commencement of Procurement (including all stages on ISDS, IFTS)	April 2023
Contract Award report	April 2025

Evaluation Framework

26. The initial framework for the evaluation methodology is set out in the table below (this may be adjusted prior to the commencement of the procurement process as necessary based on any specialist advice that is received the weighting will be either 70% price/30% Quality or 80% price/20% quality):

Tier 1	Tier 2	Tier 3
Quality	Engineering Design	Annual Maintenance Programmes
		Life Cycle Major Works Programmes
		Technical Specification
		Design Appeal
		Green Credentials
	Technical Delivery	Methodology
		Materials Standards
		Warranties

	Health and Safety	Lighting
		Safety Barriers
		Signage
Price	Evaluation Price	Construction Cost
		Debt Financing Costs
	Commercial Terms	Service Availability
		Contract Termination Costs
		Investor Return Rates
Social Value		

Reasons for Decision

27. To restore the bridge the procurement strategy will go through a legally compliant procurement process. This will allow the Council to evaluate affordability and value for money of the proposed restoration project in order to minimise the recourse to public funds.

Equality Implications

28. A partial impact assessment has been completed at this stage reflecting the bridge has been opened to pedestrians and cyclists. Stabilisation works have now commenced and are progressing. The proposed decision focuses on full restoration in due course so that the bridge can be utilised by all residents. A full EIA will be provided with the award report. All procurements include some equality requirements as part of the Councils standard contract terms.

Risk Management Implications

29. The completion of this work will improve the long-term prospects for the safe use of the Bridge for all residents and users. A Risk Register will be maintained, and risks evaluated including any necessary mitigation/recovery plans that may be required. Appropriate project oversight and governance will need to be exercised to ensure that risks and mitigations are reviewed on a regular basis, along with the delivery of the works.
30. Consultation on insurance requirements for the restoration will be required and financial provision will need to be made by the Council when this work commences.

Verified by: David Hughes, Director of Audit, Fraud, Risk & Insurance
Dated: 18 August 2022

Climate and Ecological Emergency Implications

31. It is likely that the full restoration of the Bridge (including to motorised traffic) will potentially reduce the overall impact on the environment as it should reduce the mileage and emissions from previous users that are having to use longer and alternative diversion routes to cross the Thames River.

Verified by: Hinesh Mehta, Strategic Lead – Climate Emergency
Dated: 18 August 2022

Local Economy and Social Value

32. The full restoration of the Bridge will have major strategic and economic benefits for residents and businesses. These details will be set out more clearly in the Full Business Case that is being compiled for the DfT.

Consultation

33. The proposals relating to the Bridge will continue to be subject of Planning Consultations and Consents. There is ongoing consultation on the proposals with DfT, TfL and engagement with local residents.

LIST OF APPENDICES

Exempt Appendix 1 – Final Delivery Models Option Report, 22 August 2022