

HIGHWAYS SERVICES REVIEW

To: **Highways and Community Infrastructure Committee**

Meeting Date: **28th April 2015**

From: **Executive Director - Economy, Transport and Environment**

Electoral division(s): **All**

Forward Plan ref: **2015/006** *Key decision:* **Yes**

Purpose: **To consider the procurement of a new Highways Services Contract commencing in 2016.**

Recommendation: **Committee approves the formal start of procurement for the Highways Services Contract in the form of a long-term strategic partner as set out in Section 3 of the report.**

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1. BACKGROUND

- 1.1 This report considers the procurement of a construction contract to replace the current Highways Services Contract, which is due to expire in September 2016. The Highways Services Contract was awarded to Atkins in 2006 and later assigned by Atkins to Skanska in 2013. The contract provides for the Council's routine and ongoing maintenance, together with capital maintenance and improvements, and provision of professional services, such as transport planning. The contract works alongside the Eastern Highways Alliance Framework Agreement, a collaborative arrangement with other Highway Authorities in the East of England, the renewal of which is being considered under Item 5 of this agenda, and a separate traffic signals maintenance contract, procured jointly with Peterborough City Council.

2. MAIN ISSUES

- 2.1 In recent years, there have been marked improvements in the quality of service and greater innovation by the service provider, whilst efficiency savings targets have been exceeded for revenue and capital. Recent experience of this and other contracts provides substantial learning in developing a replacement contract and it is intended to build on the strengths of the existing arrangement, whilst addressing public expectations of the service at a time of expected continued severe financial constraints on the Council.
- 2.2 The current contract was procured when the financial climate was very different to what it is now. We now have a need for a Highways Service that is sustainable in the face of tough budget challenges. The Council's Business Plan includes a total of a further £800k efficiency savings to be delivered over 2016/17 and 2017/18 from this contract. However, given the ongoing funding pressures on the Council, consideration needs to be given to achieving greater savings in the long term. The savings requirement is predicated on steady state costs of providing the service and no reduction in service standards, therefore savings will need to come from a more efficient delivery model.
- 2.3 Furthermore, we will be procuring at a time when the market is expected to be buoyant and, whilst we will be looking for reduced unit costs, we should not assume that savings targets will be achieved solely through competitive tendering. Therefore, savings also need to be found from adopting a more efficient service delivery model. The development of an Asset Management Strategy has helped ensure best use of limited resources and better coordinated planning of works over the medium term. This puts Cambridgeshire in a strong position to benefit from the new DfT funding regime, which is expected to reward innovation and collaboration, as well as good planning.
- 2.4 It is proposed to split professional services, such as transport planning, between the highway services contract and an additional framework specifically for this purpose, in order to provide the necessary capacity to deliver the Council's transport infrastructure capital programme, including the City Deal for Greater Cambridge.
- 2.5 A review process, known as a Commissioning Cycle (**Appendix 1**) has been used to identify objectives and service outcomes (**Appendix 2**) for the future Highway Services and options for delivery. Highways and Community Infrastructure Committee (H&CI) Spokespersons have been fully involved in this work and in shaping the outcomes. Whilst all the service outcomes identified in Appendix 2 are considered important, the primary

focus in determining the best option for the future contract has been on customer service, efficiency, ability to deliver financial savings, taking a preventative approach and ability to maintain positive and supportive relationships between the provider and the Council. The primary and secondary objectives help inform the choice of preferred approach and, along with cost, will form the basis of the criteria for selecting a provider. Support and challenge is being provided by Cranfield University and an independent industry representative. Analysis has shown that there are many permutations of options and sub options available to the County Council. These options can be broken down into three strategic choices:

a) Short-term / interim solution

Consideration was given to short term measures that could reduce the Council's procurement costs and keep options open for a future strategic decision at a later date, possibly in collaboration with another Highway Authority. However, under EU procurement regulations, which have recently been strengthened, expert legal advice has made it clear that the Council is unable to enter into any arrangement with a provider without a transparent and robust procurement process. This rules out any options for extension of existing arrangements or using a contract procured by another authority as alternatives to procuring our own contract or one with another authority. Whilst this type of approach would reduce the Council's short-term costs and allow further time to consider a long term option, the risk of a challenge being successful would be unacceptably high.

b) Medium / Long term service contract

This approach would involve a single contract being delivered through a traditional client / contractor arrangement, similar to our current arrangement. This option provides clarity of accountability, with the Council keeping programming and other client functions in-house and the contractor operating as a traditional service provider. As considerable efficiencies have already been achieved through the existing contract, the scope for further efficiencies is expected to be limited, as the new contractor will benefit from efficiencies already achieved, and delivery of the savings in the Business Plan will be extremely challenging. An alternative approach would be to establish a Teckal arrangement, i.e. an arm's length company owned by the authority. In effect this would provide an in-house solution that could deliver long-term benefits. However, the costs of establishing such a company are high and resource intensive and, whilst there would be benefits in terms of the Council having sole ownership of the provider, we would not benefit from the expertise, flexibility and additional capacity that the private sector can provide, and the benefits they can bring in terms of access to wider skills and resources.

c) Longer-term strategic partner

Under this option, the Council would initially enter into an arrangement similar to the present one, i.e. with a single company, but with an intention to develop a long term strategic relationship with the provider. This option has the flexibility to change over time and can be tailored to Cambridgeshire's needs.

This would allow savings to be achieved through co-location and integration of teams, including an integrated customer enquiry function, breaking down traditional client / contractor boundaries, which have proved problematic in the past, and improving efficiency. Whilst delivery of savings currently identified in the Business Plan would be challenging and it is important to ensure sufficient resource is available to ensure the new arrangement has a positive start, the approach has more potential than option b for delivering longer term savings through greater collaboration with the provider and a more flexible approach.

- 2.6 Option c) has the benefits of the Council maintaining substantial control over the service through joint governance arrangements, rather than relying on the provider to deliver the service against service specifications. It is envisaged that a break clause or termination points would be factored into the contract so that the County Council could end its relationship with the provider if its expectations were not fulfilled.
- 2.7 Partnership working is increasingly being deployed to achieve savings and efficiencies. The Council, as Highways Authority, is already active in partnership working through the Eastern Highways Alliance and joint contracts and, whilst there has been exploration of the potential for joint procurement with another authority, these have proved to be problematic due to authorities being at different stages in their contract cycles. However, strong links have been made with a number of neighbouring authorities, including Northamptonshire, and work will continue to explore potential for efficiencies through collaboration.

3. PREFERRED OPTION AND PROCUREMENT

- 3.1 Option c), a longer term strategic partner approach, is proposed as the Council's preferred option, as options a) carries high risks and neither option a) or b) provide a long term flexible solution. Option c) provides the greater opportunity for long term benefits and provides the best fit with the service outcomes identified above and in Appendix 2.
- 3.2 In order to procure this service option effectively, the intention is to enter into a competitive dialogue process, where a short-list of potential providers are invited to work with the Council to shape a final offer. This procurement route would allow us to engage with several potential service providers and assess their approach and ability to meet the service outcomes objectives. A competitive dialogue process would also involve the potential providers submitting outline business cases to explain how they may be able to assist the County Council with reducing the cost of its Highway Service, whilst maintaining the quality of service delivery.
- 3.3 Careful choice of a contractor, as a long term strategic partner, would help ensure that the Council had access to the necessary skills and capacity to deliver its ambitions for maintaining and improving our roads at a competitive price. It may also be possible to write the contract in a way that allows future collaboration with another / other authorities. However, the approach does not come without its own risks, for example, companies do change over time and are subject to market conditions, so understanding the culture, abilities and, as much as possible, future direction of potential partners is crucial to the long term success of this approach.

- 3.4 Our market research has revealed that this option is likely to be attractive to the major private sector providers, who have the capacity to provide the service we require, helping to maximise the Council's opportunity for cost savings via competitive pricing. This approach has also recently been successfully delivered via a complete dialogue process in other local authorities within the Eastern region.
- 3.5 In procurement terms, whilst cost remains vitally important, there is currently a trend towards placing greater emphasis on quality than in the past, as poor quality has been shown to lead to increased long term costs for authorities. A quality based service, with a strong emphasis on efficiencies through improved practice and integration / removal of double-handling, potentially offers a very attractive option for the Council and fits well with the service outcome objectives.
- 3.6 The process set out above will require immediate commencement of the procurement process and development of initial tender documentation. Following Committee's decision on the preferred approach, it is proposed to update Committee on progress throughout the process, leading to a final report to Committee to determine the Council's provider later this financial year. Given that members have been appointed to project boards for other major contracts, Committee views are sought on member involvement on the development of the Highways Services Contract. It is anticipated that the contract will be awarded by the end of the current financial year to allow for mobilisation of the provider.

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 Developing the local economy for the benefit of all

The following bullet points set out details of implications identified by officers:

- Maintaining and improving road infrastructure has been identified as a key priority for the continued development of the local economy
- Procurement of a new Highway Services Contract will provide a key means of delivering highways schemes that support existing investment programmes

4.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

4.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

5. SIGNIFICANT IMPLICATIONS

5.1 Resource Implications

The following bullet points set out details of significant implications identified by officers:

- This is a significant procurement and will require LGSS resource, principally from Procurement and Legal. Additional external support will also be required to provide technical expertise, funded from existing resources.

5.2 Statutory, Risk and Legal Implications

The following bullet points set out details of significant implications identified by officers:

- The residual risks associated with this procurement for Cambridgeshire are similar to other contract procurement exercises. The LGSS project team have experience of this type of procurement.
- These risks will be mitigated through the drafting of the contract, informed by the work of the Government sponsored Highways Maintenance Efficiency Programme (HMEP).

5.3 Equality and Diversity Implications

There are no significant implications within this category.

5.4 Engagement and Consultation Implications

There are no significant implications within this category.

5.5 Localism and Local Member Involvement

There are no significant implications within this category.

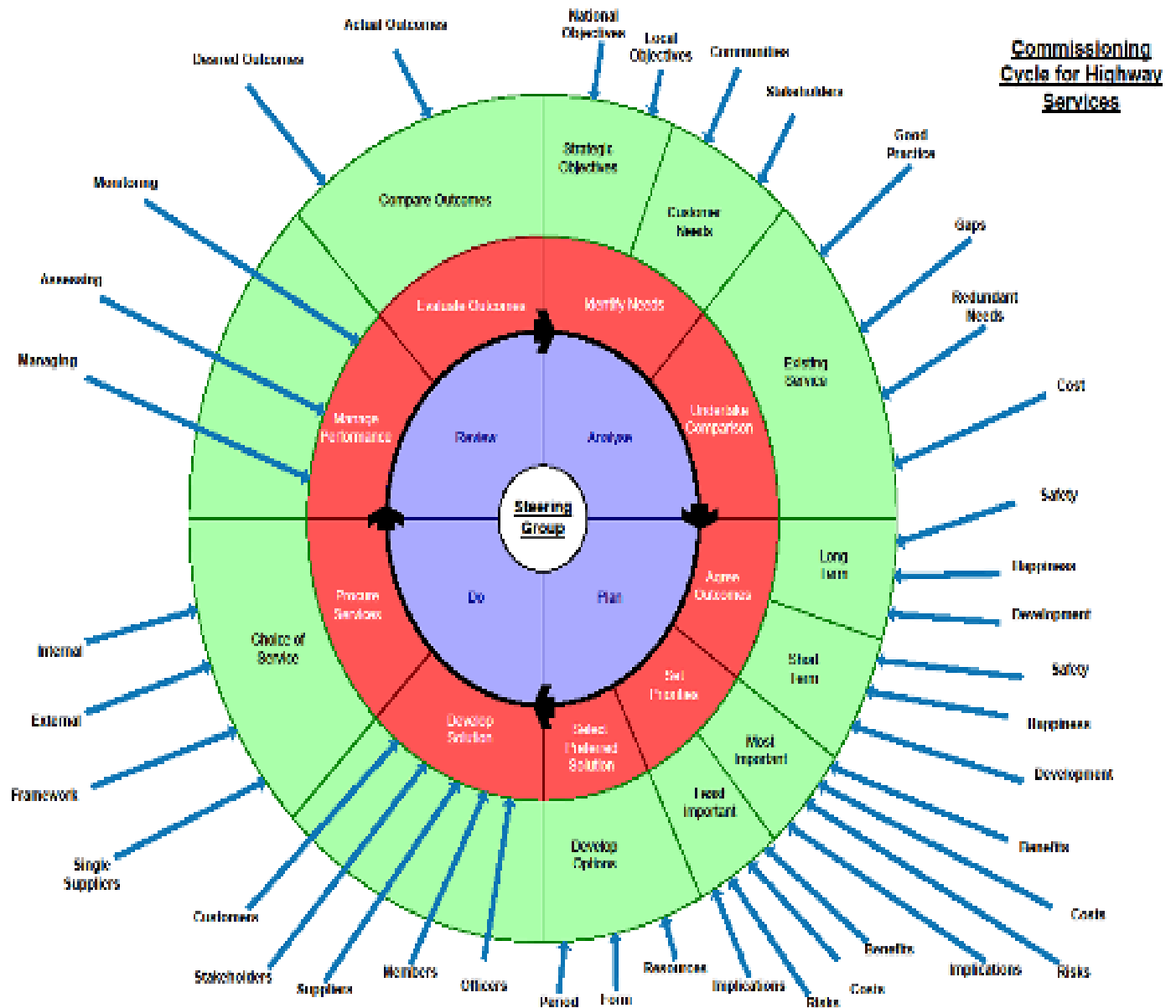
5.6 Public Health Implications

There are no significant implications within this category.

Source Documents	Location
Spokespersons reports on Highways Service Contract	ETE, Shire Hall

APPENDIX 1

1. Commissioning Cycle for Highway Services



APPENDIX 2: Outcomes for a post 2016 Highway Service

Primary outcomes (the ones of most relevant importance)		
Customer service is efficient and effective	1. The Service is Efficient: We identify efficiencies on an on-going basis in order to maximise our resources to deliver maximum “pound on the ground” delivery.	<p>A service that would allow Cambridgeshire to retain some of its specialist functions on a self-financing chargeable basis.</p> <p>Any new service or arrangement needs us to adopt a more business-like approach in order to use our assets to generate income where appropriate.</p> <p>Aligns with the 14/15 Business Plan’s requirement for “an efficient and effective organisation”.</p> <p>There is a need for a greater level of coordination and communication between both internal CCC teams and external providers in the future.</p> <p>We effectively monitor the quality of the services that are delivered to our customers.</p>
	2. Financial Savings are Delivered: Financial savings are identified and realised in order to continue the delivery of sustainable services.	<p>An affordable service is a paramount need and the Undertake Comparison phase revealed that the current service is not affordable in the long-term.</p> <p>Financial performance is visible and regular reporting ensures that stakeholders are aware of the financial position of services at any given time.</p>
	3. Preventative Maintenance is Effective: We follow our Asset Management Strategy to improve the whole life costs of our assets.	<p>Maintaining the quality standards that we already have is considered to be a need. Maintaining a level of road condition to enable people to access their services of choice.</p> <p>Providing a fully integrated and holistic approach for the Transport Plan and Local Plan.</p>

Customer service is efficient and effective	4. The Service Relationships are Effective: The relationship is flexible and can adapt to changing circumstances and needs of the County Council.	Greater coordination, innovation and communication between the client and contractor's staff. A future proofed solution that can adapt to the changing operating environment of the County Council.
	Secondary outcomes (of secondary relative importance when compared to the primary outcomes above).	
	5. Scheme Design and Delivery is Effective: Infrastructure schemes are designed and delivered in a timely fashion in order to enable the successful delivery of the Transport Delivery Plan.	Connectivity: Providing infrastructure for new developments. A service that fully understands the needs of the Major Programmes and Infrastructure Service and the Transport and Infrastructure, Policy & Funding Service in terms of quality designs and timely delivery.
	6. The Public and Workforce are Kept Safe: Our Highway works keep the public and workforce safe.	No direct link to Needs identified in the review, but arguably links to CCC's overall priorities as articulated in the 2014/15 Business Plan.
	7. The Network is Effective: The network is fit for purpose and users experience minimal disruption.	Maintaining a level of road condition to enable people to access their services of choice.
	8. The Service Delivers Values: Our Highway service benefits the local supply chain and resources.	We continue to use the local supply chain as we do now. Wider value is generated by the service in terms of it facilitating the needs of the wider organisation ie. Public Health.