

Report to: **Cabinet**

Date: **29 April 2005**

Report by: **Director of Transport and Environment**

Title of Report **Future Delivery of Highway and Vehicle Services**

Purpose of Report **To advise Cabinet on the progress made in restructuring the services, the tendering process and outcomes which are included in the exempt part of the agenda**

RECOMMENDATIONS

The Cabinet is recommended to:

- 1. note the report; and**
 - 2. agree the invest to save strategy for investment in highway and vehicle services as set out in Appendix A.**
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1. Financial Appraisal

1.1 The financial implications of the project to re-tender the outsourced contract services (ROCS) currently provided by Owen Williams and Colas should be considered as two distinct elements: costs, savings and investment in staffing, property and ICT and separately, commitments and additional costs arising directly from the new contracts. Appendix A details the latest estimates of the internal aspects and includes some £400,000 saving per annum arising directly from the new staffing arrangements as well as additional recharges to the capital programme (properly reflecting activity) of some £300,000. Together this relieves the pressure on the revenue budget by £700,000 and provides for the prompt pay back of short term additional investment needs in ICT and depot facilities (£1m) and ultimately the on-going re-investment in direct service delivery subject to future decisions under Reconciling Policy and Resources.

1.2 The financial implications of the tender evaluation exercise are the subject of another report elsewhere on the agenda.

2. Supporting Information

2.1 Cabinet on the 19 November 2003 agreed the new way forward for the delivery of these services. This was based on a new mixed economy of in-house and external services with the tendering of two new contracts to start on 1 September 2005 when the existing arrangements expire. The main objectives behind the whole project are to provide a more customer focussed joined up service that reflects the Council's priorities. It is essential that future flexibility was maintained to allow for any changes in policy and available resources. There is also a strong need to reinvest in the service for modern accommodation and IT arrangements, and to address resource pressures where there are difficulties with recruitment and retention.

2.2 There are a number of key elements that were agreed in order to achieve these objectives. These related to the departmental restructuring, accommodation, improved arrangements for customer contact, new ICT and new service contracts with the private sector.

2.3 The staff restructuring has gone very well. All staff have now been notified of their substantive post, or where their work has been split over more than one post, been asked to express a preference. We are currently in the process of having one-to-one meetings with the staff that will potentially transfer back to the County Council. Unison has been fully involved throughout the process. Arrangements for temporary and permanent accommodation are well advanced with planning permission already in place for the extension at Ringmer. A new single telephone number for Highway Services will be introduced for the public in October in line with the Corporate Access Strategy. Replacement ICT Systems have been fully scoped and the procurement process is underway.

Highways Contract

2.4 We have been pleased with the general response from the six companies that were invited to Tender. Most of them responded well to the Council's aims of developing the service and improving quality to its customers. The companies have demonstrated a commitment to partnership working and driving innovation to deliver efficiencies. The way in which the work has been packaged and tendered has stemmed the expected increase in cost. The contract is worth £10m to £15m per annum depending on available budgets. There are no absolute guarantees of workload for the contractor. It will run for an initial seven years with an option to extend for a further three years. It includes all highway maintenance work for the County Council and schemes up to a value of £300,000. An outline of the contract is attached at Appendix B.

Vehicles Contract

2.5 Not all of the five companies that were invited to Tender actually returned bids for this contract. However, the company recommended to Cabinet have put together a very good submission and will deliver against the Council's service requirements. As with the Highways contract, the expected cost increases have been curtailed due to the way that the work has been packaged. The contract, including some elements of work for Brighton & Hove City Council, is worth approximately £0.5m per annum. It has an initial period of seven years with an option to extend for a further three years. It covers the maintenance of all of the County Council's fleet of vehicles and the two special structures (Cuilfail Tunnel and the Swing Bridge at Newhaven). An outline of the contract is attached at Appendix C.

Next Stages and Risks

2.6 Following the award of the contracts, it will be essential to manage the ongoing delivery of the current services during any transition and implementation period. There is also the need to continue to develop schemes within the Capital Programme during the period of change. The new ICT systems will be brought on-line during the first eighteen months of the new arrangements. Temporary IT solutions have been developed to ensure the services can be provided and the contract properly administered until the new systems are in place. The new contracts seek far closer working between all parties and a more flexible and dynamic approach to service delivery. For this to happen it is essential that effective partnerships develop between all parties.

3. Conclusion and Recommendations

3.1 It is important that the Council continues to move the services forward and that future arrangements build on the strengths that currently exist while addressing the identified weaknesses. The proposals and recommendations for Cabinet to consider in the exempt part of the agenda offer excellent value for money for the County Council and aspire to achieve the key objectives.

BOB WILKINS

Director of Transport and Environment

22 April 2005

CABINET: C29April-Highway Vehicle Services

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INTERNAL COSTS / SAVINGS

STAFFING, ICT AND DEPOT FACILITIES

1.1 The figures below are the marginal additional costs or savings compared to existing budget provisions.

1.2 A report was considered by Cabinet at its meeting on 3 August 2004 outlining the overall approach to re-shape the delivery of highway design, maintenance and vehicle services in line with the recommendations of the Best Value Review. That report provided initial estimates of additional costs and anticipated savings and focussed particularly on investment requirements in relation to depot facilities, including an option appraisal. The report included an expectation that the ICT investment needs would be provided, competitively through the new contract and did not therefore go into any great detail. This particular expectation has not been met satisfactorily.

1.3 The ICT investment indicated below, will provide a complete integrated works estimating, ordering and management system. It will be industry compliant and will interface as necessary with the Council's existing core systems. The functionality will cover asset management requirements and deliver key information to support the work of the Highways hub to be implemented later this year. The procurement and implementation will be managed under the normal arrangements through the E-Government Steering Group.

1.4 In summary, the internalisation of staff currently employed by Owen Williams was expected to generate savings of some £400,000 in a full year to be re-invested, in the short term, towards investment to improve depot facilities and ICT infrastructure and equipment. The need for such investment was recognised in the Audit Commissions report following the Whole Service Inspection of Transport last Autumn. In the longer term any savings will be re-invested, as demonstrated below, in direct service provision.

1.5 The latest figures are demonstrating a more favourable position than originally anticipated. The internalisation of staff is still expected to achieve savings of some £400,000 and an examination of actual activity has led to a review of the framework for recharging staff time to the capital programme. The additional recharges provide a further £300,000 saving to the revenue budget. Additional investment requirements in ICT and depot facilities peak during 2005/06 requiring an additional £1m investment in excess of existing budget provision. It is recommended that this is treated as an invest to save initiative with the total investment being repaid by 2008/09 when the balance of savings will start to be re-invested in on-going marginal increases in depot running costs and direct service provision. The initial investment can be managed through unsupported borrowing (or if possible, timing opportunities through the Capital Programme Reserve before it is actually required to support the agreed Capital Programme.) The initial investment will be repaid over three years. The normal control processes around variations to the capital programme will be followed and the E-Government Steering Group will be consulted on the actual detailed proposals.

1.6 The summary at the bottom demonstrates the initial investment needs, the payback period and the point that savings will start to be re-invested in the service.

| | 2004/05 £'000 | 2005/06 £'000 | 2006/07 £'000 | 2007/08 £'000 | 2008/09 £'000 |
|---|------------------|------------------|------------------|------------------|------------------|
| STAFFING | | -314.0 | -690.0 | -690.0 | -690.0 |
| PROPERTY | | | | | |
| <u>Western Area</u> | | | | | |
| Marginal cost compared to budget for all depots | | -23.8 | -35.6 | -35.6 | -35.6 |
| Temporary accommodation (Beaconwood & Eastgate) | | 74.1 | 23.8 | | |
| Removal costs Beaconwood & Eastgate | | 10.0 | 10.0 | | |
| Ringmer - par capital programme | | 146.0 | 146.0 | 146.0 | 146.0 |
| - additional requirement based on latest estimate | | 8.0 | 8.0 | 8.0 | 8.0 |
| - fees | 100.0 | | | | |
| | 100.0 | 214.3 | 152.2 | 118.4 | 118.4 |
| <u>Eastern Area</u> | | | | | |
| Marginal cost compared to budget for all depots | | -8.4 | -4.3 | 234.7 | 234.7 |
| Marley Lane | 81.4 | 54.9 | 53.0 | | |
| Sidley | 7.0 | 70.8 | 5.0 | | |
| Heathfield | 7.0 | 82.6 | 5.0 | | |
| | 95.4 | 199.9 | 58.7 | 234.7 | 234.7 |
| Re-furbishment of other depots (washdown areas etc) | | 423.0 | | | |
| TOTAL PROPERTY COSTS | 195.4 | 837.2 | 210.9 | 353.1 | 353.1 |
| PROJECT MANAGEMENT & DEVELOPMENT | 324.4 | 211.9 | 29.5 | | |
| ICT INVESTMENT | 38.0 | 548.2 | 318.4 | | |
| TOTAL INVESTMENT REQUIRED | 557.8 | 1283.3 | -131.2 | -336.9 | -336.9 |
| Funding | | | | | |
| ROCS budget | 558.0 | | | | |
| Planned Carry forward from 2004/05 | | 152.0 | | | |
| Existing Revenue budget provision | | 154.0 | 154.0 | 154.0 | 154.0 |
| Total Identified Funding | 558.0 | 306.0 | 154.0 | 154.0 | 154.0 |
| INVEST TO SAVE | -0.2 | 977.3 | -285.2 | -490.9 | -490.9 |
| Summary | | | | | |
| Initial Investment | | 977.3 | | | |
| Repayment of Investment | | | 285.2 | 490.9 | 201.2 |
| Re-invest in service delivery | | | | | 289.7 |
| | | 977.3 | 285.2 | 490.9 | 490.9 |

HIGHWAY WORKS CONTRACT 2005 – 2012

KEY FEATURES OF THE CONTRACT

1. Background to the New Contract

1.1 The Council currently has a number of contracts for highway engineering and related services including:

- Gully Emptying;
- Sign Cleansing;
- Rural and Urban Grass Cutting;
- Winter Maintenance;
- Small Works and Minor Emergencies Service;
- Minor Bridge Maintenance;
- Surface Dressing;
- Specialist Road and Footway Surfacing;
- Supply and Lay of Bituminous Materials;
- Patching and Reinstatement;
- Road Markings and Road Studs;
- General Highway Works;
- Weed Control.

1.2 An increasing awareness of the importance of the highway network to the community, economy and the quality of the environment has raised the profile, both nationally and locally, of how highway services are delivered. The County Council's responsibilities in managing its statutory obligations and how value can be added through the careful procurement of highway related services are fully recognised. To this end, there has been identified a need to refocus the work carried out by the County Council itself, its consultants and contractors, to better co-ordinate the many elements which are contributors to the street scene, of which the highway network and how it functions is probably the most significant single part.

1.3 We are seeking better co-ordination and integration of highway maintenance works and schemes, working in conjunction with our contractors wherever possible to achieve the most practicable, economic, sustainable and least disruptive solutions.

1.4 The proposed contract is intended to provide the County Council with a means of undertaking the majority of its highway maintenance and small schemes (up to £300,000 each) under a partnering arrangement with a single contractor incorporating all those elements of work highlighted above.

1.5 In implementing this new way of delivering highway services, the County Council's key objectives for the new contract are:

- To provide a customer focussed joined up service
- To provide value for money for the County Council.
- To provide continuity of service provision, including a seamless transfer.
- To obtain, where possible, continuous improvement in service provision and quality.
- To maintain flexibility for future policy and budget setting
- To adopt Best Practise.
- To improve integration of highway works from basic maintenance through to new schemes.

- To seek a contractor who is prepared to develop genuinely responsive and co-operative partnering arrangements with the County Council, and throughout the supply chain, over the life of the contract.
- To apply TUPE where appropriate.

2. Aspirations as stated in the Contract

2.1 The County Council is keen to achieve greater client/contractor integration in the delivery of services, from design through to implementation, and is seeking to develop a partnering approach throughout the supply chain.

2.2 The County Council expects to build good working relationships with the successful tenderer. Parties will be expected to develop a spirit of openness and trust so that each keeps the other fully informed of developments (both good and bad) at all times. Such openness is to apply in all areas of operation, management, and accounting, with problems identified at an early stage. The major benefit of collaborative working will be the establishment of better ways of working.

2.3 It is the intention that arrangements will be put in place to facilitate the parties working actively together to:

- (i) share information
- (ii) solve problems
- (iii) innovate and implement change quickly and effectively
- (iv) record significant actions.

2.4 The majority of the work that will flow through the contract will be identified and designed in-house by the client, in consultation with the contractor where appropriate. The emphasis being very much on early contractor involvement in the design process, in order to achieve the most practicable, economic, sustainable and least disruptive solutions.

3. Conditions of Contract

3.1 The Conditions of Contract used for this contract are based on the Institution of Civil Engineers New Engineering Contract Engineering and Construction Contract, 2nd Edition, November 1995 (ISBN 0 7277 2094 5) as amended. This is a well established standard form of contract used throughout the construction industry, and lends itself well to a partnering approach whilst giving the Council a very robust fall back position.

3.2 The payment mechanism is based on a schedule of rates, but the contract has the flexibility to change to other forms of payment should it be mutually agreed between the County Council and contractor to do so. As the highway asset inventory becomes better established it may be possible to move more towards a performance specification for activities such as gully cleaning, and pay on a lump sum basis.

4. Roles and Interface between the Parties

4.1 The main client and contractor responsibilities in the workflow process are:

| Client Responsibilities | Contractor Responsibilities |
|--------------------------------|---|
| Policy | Early Contractor Involvement in Design and Buildability (Value Engineering) |
| Budget Management | Preparation of Detailed Estimates |
| Works Identification | Programming |
| Works Design | Notification of Works for Street Works Register |

| Client Responsibilities | Contractor Responsibilities |
|--|--|
| Client, Designer and Planning Supervisor under the CDM Regulations | Principal Contractor under the CDM Regulations |
| Identification of Programme Constraints | Financial Evaluation |
| Initial Notification of works for Street Works Register | Self Certification of correctness of work carried out and invoicing. |
| Approval of Programmes | Management and Supervision of the Works and Resources |
| Approval of Estimates | Works Execution |
| Issuing of Works orders | |
| Payment | |

4.2 Co-location with the contractor will benefit early contractor involvement in the design and planning processes. Early contractor involvement is designed to encourage challenge to conventional design solutions where appropriate alternative solutions are practicable and viable, to ensure buildability, and to minimise construction times and disruption to the public. Integrated team working, under the badge of East Sussex Highways, will engender joint ownership of the service and facilitate an open and honest approach.

4.3 Early contractor involvement in the design process is also designed to ensure that the contractor fully understands the details of the work he is to carry out, be this by way of drawings or adopting a walk and build method. Either way, once the contractor fully understands what is required, he will then estimate the cost of the works, based on the schedule of rates, and the time required to complete the works. This will be submitted to the client for approval. In this way, better predictability of cost and time should be achieved.

4.4 Moving to a system of self-certification by the contractor requires a significant culture change by the client. However, it is designed to place the responsibility for workmanship, materials and safe considerate working, clearly and firmly in the hands of the contractor, where it should rightly be. The client's involvement during the construction phase will be mainly an extension of the designer role to ensure that the finished product is fit for purpose in terms of functionality and future maintainability.

5. Control Processes

5.1 Local Checking

5.1.1 The client will check 10% by total value of each months invoices across the full range of works, for accuracy, i.e. work covered by invoice has been done, correct measurement etc. Any incorrect invoices will be corrected. The Contractor will pay any additional costs incurred by the client arising from having to check more than 10% by total value of each month's invoices. The choice of which invoices to check will be informed by a brief initial comparison of invoiced amount against the pre-agreed estimate for each works order. If the number of invoices found to be correct is less than 95% then the next months check will increase to 15% by total value of that month's invoices. The value of invoices checked will continue to rise by 5% of the total value each month, at the contractor's expense, until such time as the problem is corrected.

5.2 Central Audit

5.2.1 The client and the contractor will jointly carry out regular central audits of activities carried out though the contract. The core activities these audits will always cover will be financial procedures, health and safety, customers care, client/contractor satisfaction, environmental sustainability, and the scope will be widened as and when considered appropriate to any other activity of East Sussex Highways.

5.3 Performance Indicators

5.3.1 The performance indicators are included in the contract, and further ones will be developed with the successful contractor as appropriate. The performance indicators covering timely completion, cost predictability, and safety are in line with the Re-Thinking Construction agenda.

5.4 Delay Damages

5.4.1 Liquidated damages can be applied to each works order should the contractor fail to carry out the works within the permitted time. The contractor will also be fined for any breach of the Street Works Notification procedure.

5.5 Work carried out incorrectly or not at all

5.5.1 The contractor will not be paid for work until he has formally certified that it has been carried out correctly, and subject to the findings of any checking by the client.

5.6 Termination, Suspension and Step-In Rights

5.6.1 Should the contractor breach any of his obligations under the contract the client can issue a notice to that effect. Depending on the severity of the breach and/or the number of notices issued this can lead to suspension or termination of part, or the whole, of the contract, depending on the seriousness of the situation. The client has the right to step in and arrange for the works to be done by others with all reasonable additional costs incurred by the client in taking such measures being recoverable from the contractor.

6. Contract Period

6.1 The contract is for seven years with an option to extend by up to a further three years.

APPENDIX C

FLEET MAINTENANCE AND SPECIAL STRUCTURES CONTRACT

KEY FEATURES OF THE NEW CONTRACT

1. Background to the new contract

1.1 The proposed contract will be for the routine and reactive maintenance of the County Council's core fleet of vehicles as well as the County Council's "Special Structures" namely the Newhaven Swing Bridge and the Culfail Tunnel.

1.2 The County Council currently has a Fleet comprising of 188 vehicles that are allocated to bases throughout East Sussex. The fleet varies from cars, light vans, people carriers, land rovers, medium size vans, minibuses, accessible welfare coaches and snow blowers. Also included are a small number of light and heavy commercial vehicles to serve the County Council's library and ICT Services and a few items of specialist plant and trailers.

1.3 In addition, the County Council manages the maintenance of a fleet of approximately 51 vehicles on behalf of Brighton & Hove City Council.

1.4 We are seeking to develop the co-ordination and integration of the fleet and special structures maintenance service, working in conjunction with the contractor wherever possible to achieve the most practicable, economic and sustainable way of running the service so as to ensure the minimal disruption to the service end users.

1.5 In implementing this new way of delivering the service, the County Council's key objectives for the new contract are:

- Customer focussed services
- To provide value for money for the Council.
- To provide continuity of service provision, including a seamless transfer.
- To obtain, where possible, continuous improvement in service provision and quality.
- To maintain flexibility for future policy and budget setting
- To adopt Best Practise.
- To seek a contractor who is prepared to develop genuinely responsive and co-operative partnering arrangements with the County Council, and throughout the supply chain, over the life of the contract.
- To apply TUPE where appropriate.

2. Aspirations as stated in the Contract

2.1 The County Council is keen to achieve greater client/contractor integration in the delivery of the service and is seeking to develop a partnering approach throughout the supply chain.

2.2 The County Council expects to build good working relationships with the Contractor. Parties will be expected to develop a spirit of openness and trust so that each keeps the other fully informed of developments (both good and bad) at all times. Such openness is to apply to all areas of operation, management and accounting, with problems identified at an early stage. The major benefit of collaborative working will be the establishment of better ways of working.

2.3 It is the intention that arrangements will be put in place to facilitate the parties working actively together to:

- (i) share information
- (ii) solve problems
- (iii) innovate and implement change quickly and effectively
- (iv) record significant actions

3. Conditions of Contract

3.1 The conditions of contract used for this contract are based on the Institution of Civil Engineers (New Engineering Contract) Term Services Contract as amended. This is a standard form of contract designed to be used for a wide range of situations and lends itself well to a partnering approach following the principles of flexibility, clarity and simplicity as stimulus to good management.

4. Profit sharing

4.1 The County Council will allow the Contractor to use its premises to undertake work for third parties in return for a sharing of profits equal to 5% of their gross profit.

5. Control Processes

5.1 Performance Indicators

5.1.1 Performance indicators are included in the contract, and further ones will be developed with the successful contractor as appropriate.

5.2 Low Performance Damages

5.2.1 The contract allows for the application of Low Performance Damages should the Contractor fail to meet a number of key service performance levels.

5.3 Termination, Suspension and Step-in Rights

5.3.1 Should the contractor breach any of his obligations under the contract the County Council can issue a notice to that effect. Depending on the severity of the breach and/or the number of notices issued this can lead to suspension or termination of part, or the whole, of the service, depending on the seriousness of the situation. The County Council has the right to step in and arrange for the service to be carried out by others with all reasonable additional costs incurred by the County Council in taking such measures being recoverable from the contractor.

6. Contract Period

6.1 The contract is for a minimum term of seven years with an option for extensions totalling up to an additional period of three years. In order to ensure that service quality is of a sufficiently high standard there are appropriate measures and remedies to deal with poor delivery in the contract. Continuous improvement in service delivery will be achieved by the use of performance indicators and other performance measures.