

HERTFORDSHIRE COUNTY COUNCIL

**CABINET
MONDAY 29 JANUARY 2001 AT 10.00 AM**

**EXECUTIVE COMMITTEE
MONDAY 29 JANUARY 2001 AT 2.15 PM**

Agenda Item No.

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HIGHWAYS SERVICE PROCUREMENT OCTOBER 2002 ONWARDS

Report of the Director of Environment

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1. Purpose of report

To seek approval to proceed with the preparation of a contract based upon a new form of procurement for highway services to take effect from October 2002.

2. Summary

- 2.1 The project is working to a tight timescale in order to satisfy EU procurement requirements. As a consequence the sequence of Cabinet and Select Committee meetings could not be made to coincide with the timetable for completing consultations prior to placing an EU advert for potential expressions of interest in February/March 2001.
- 2.2 The report is to Executive Committee for decision on grounds of urgency. The views of Select Committee spokesmen are being sought and will be reported to Cabinet and Executive Committee.
- 2.3 The pilot Best Value Review into Highway Maintenance submitted to Environment Committee on 11th January 2000, set out the basic core standards to be provided when delivering the highway service within Hertfordshire.
- 2.4 It also set out a suggested strategy and basic investment levels for dealing with the backlog of worn out infrastructure.
- 2.5 The review in arriving at these basic conclusions only tackled the first three of the 4 C's embedded in the Best Value methodology and left consideration of the "Compete" element to be addressed as a follow on project. This report deals with this final stage.

3. Conclusion

3.1 The key aspects of the proposed new arrangement for procuring highways services are:-

- service requirements specified by performance outputs, with continued improvement driven by a scheme of shared reward
- a greatly simplified procurement process
- three elements of service delivery comprising -
 - i) a strong strategic client with a requirement to develop the highway network in line with asset management principles
 - ii) a number of joint (client/consultant/contractor) local service teams
 - iii) a joint (client/consultant/contractor) centrally based service improvement team

Background

4. Aims of Project

- 4.1 The conclusions of the first stage of the review, confirmed by subsequent public consultation, recognised that the people of Hertfordshire, are looking for enhanced levels of highway service both in terms of quality and quantity.
- 4.2 Current financial pressures, despite increases in Central Government provision for highway investment, suggest that if all the aspirations are to be met then a step change in the effectiveness of existing contractual arrangements will be necessary.
- 4.3 Against this background it has been possible to set the following aims for the next generation of highway services procurement:-
- i) to improve the quality of highway services, without escalating cost beyond ability to pay
 - ii) to eliminate unnecessary bureaucracy and duplication by streamlining the supply chain so those best placed can deliver the end service as first time action
 - iii) to balance a consistent core service with an ability to reflect local community needs
 - iv) to give service suppliers scope for action which in turn can be adequately monitored and evaluated
 - v) to provide means to ensure continued improvement

5. New Contract Features

- 5.1 The key features of the proposed new contract are summarised below. The derivation of the concept and further clarification is provided in subsequent paragraphs 5 – 8.
- i) Partnering
This aims to reduce adversarial claims processes and unnecessary checking. It should also promote co-operation between the parties, to the benefit of all concerned.
 - ii) Risk Share
Risks should be allocated to the partner best able to manage them. A risk register will be agreed by all the parties and reviewed at regular Risk Management meetings.
 - iii) Activities
All activities will be undertaken by the partner in the best position to

deliver them in the most effective and efficient way.

iv) Performance Specifications

Where possible the contract specification will be based on “outcome” requirements. This can lead to innovation, flexibility, improved quality, value for money and appropriate allocation of risk.

v) Performance Review

The contract must be capable of detailed annual performance review. The review will start in year 1 and will be linked to contract extensions from year 3. To be effective the review would be assessed against a relatively small number of Key Performance Indicators (KPI's). These KPI's will form the basis by which continuous improvement is demonstrated.

vi) Contract duration

The key to determining contract duration is dependent on the amount of investment required by the providers

vii) Payment Mechanism

A range of payment mechanisms are likely to be appropriate:

- a) lump sums are appropriate where the work is capable of specification by means of a performance specification and it is possible to reasonably accurately measure the amount of output required.
- b) schedule of rates leading to performance related payments may be more appropriate for other areas of work
- c) Incentivisation used to ensure providers come up with innovative and cost effective solutions which save money. They might share any savings generated (50/50).

An example of this latter approach is “target costing” where the partners agree a cost structure and construction method against which the contractor is allowed to innovate in order to secure saving. This is being currently trialed in two partnering contracts for bridges and structural maintenance programmes.

6. Methodology for Review

- 6.1 The large quantities of information gathered as part of the earlier stages of the review provided a basis to determine the relative importance of each part of the service. This also clarified how each activity carried out on the highway contributes to corporate goals and the extent of its positive or negative contribution to the overall value of the highway asset. This better understanding of the inter-relationship of activities has enabled a re-think of how work could be grouped against key performance standards rather than as a series of prescribed activities.
- 6.2 Organisational raids have been carried out to leading edge organisations who have introduced new or novel initiatives in order to improve their efficiency.
- 6.3 A series of workshops with service provider representatives have secured an understanding of industry views, its capability to deliver and to brainstorm ideas.
- 6.4 Staff groups have been set up with two aims in mind. The first being to provide a communication mechanism to ensure staff are fully briefed on developments which could have an impact on their future. The second has encouraged challenge and has provided experienced staff to recommend changes to lead responsibilities between the various parties involved in delivering the service.
- 6.5 The District Councils are currently involved with highway service issues. District officers have been involved for some time via HTCOA in this contract review process. In addition a joint member meeting has already taken place to ensure an early input of their views.

7. Context for Considering the Fourth ‘C’

- 7.1 Over the past decade the method of providing the highway service has undergone a number of significant changes. They have been initiated in response to a variety of often unrelated pressures but all have represented steps towards greater levels of effectiveness.
- 7.2 The relevant steps can be summarised as follows:
 - i) an ethos of a strong local client focus epitomised by the Divisional/Area Manager and local area office method of working;
 - ii) externalisation of the County’s contracting (DSO) capabilities to HighGround;
 - iii) a re-focus of the County’s core business into client and provider with the hosting out of the design function to Mouchel;
 - iv) on-going strenuous efforts to seek revised working arrangements with the ten District Councils resulting in the formation of a number of Highways Partnerships, currently four exist and two further partnerships

are due to come into service April 2001;

- v) trial measures to provide Highway Partnership Panels with small local discretionary budgets, and
- vi) the Herts Connect initiative. This, when fully operational, will offer the use of the Customer Service Centre and the Internet so local people can find highway information and report faults in a more direct way.

8. Key Concepts

8.1 To take advantage of the emerging opportunities to streamline the method of procurement for highway service, it is necessary to consider the type of organisation that will be necessary in order to reflect revised management functions. Consequently the project has been broadened into a fundamental review of both procurement options and organisational structures.

8.2 As a result a number of key concepts have emerged which provide the potential to achieve the next step change in effectiveness. These are:

- i) An Asset Management approach to the maintenance of the whole highway network

*Asset management in this context can be defined as:-
“a systematic approach to the stewardship of all the components comprising the highway infrastructure. Carried out in such a way that the required level of service is met in the most cost effective way through the creation, acquisition, maintenance, operation, upgrading and (as appropriate) disposal of assets to provide for present and future customers”. In addition it allows the contribution that each specific item of activity offers in delivering the strategic objectives of the authority to be formally evaluated.*

- ii) Partnership working with all providers
- iii) Joint working via co-location to underpin the partnership philosophy
- iv) Joint central team to champion service improvements, plus year on year efficiencies
- v) Maintenance of the policy of local officer responsibilities
- vi) Countywide provider arrangement

8.3 To assist in evaluating the potential improvement possible, objectives were established as a basis for analysis. These are described at Appendix 1.

8.4 A simplified model of the current arrangement is shown at Appendix 2. The communication linkages within the client and provider clusters have been

omitted but even so the complexities are evident together with the huge volume of transactions needed to achieve an end result on site. When this arrangement was evaluated against the weighted objectives it showed a maximum 44% effectiveness score.

- 8.5 Appendix 3 shows diagrammatically the concepts set out in para 8.2 illustrating a preferred way of working for the next generation of highway service. Evaluation of this new arrangement indicates that an effectiveness score in the range of 69% (five) - 82% (single) could be expected, depending upon the number of local offices chosen.
- 8.6 In addition the two models have been evaluated using the methodology derived as part of the "Framework for the Consideration of Corporate Procurement and Outsourcing" featured elsewhere on this agenda. The same potential for improvement was predicted.
- 8.7 Appendix 4 sets out the programme required for the award of new contracts. The magnitude of the changes proposed and the necessary processes means that some of the detail will not be finalised until 2002.

9. Contract Periods and Performance Review

- 9.1 For the full benefit of the new arrangement to be achieved the County Council will need to consider a long term arrangement. In order to provide sufficient incentive to invest in state of the art plant and equipment and office accommodation, feedback from the private sector has stressed an expectation of 5-7 years minimum contract length. However, any such arrangement will also need to stimulate a positive attitude to continuous improvement and contain explicit exit clauses in case of major default. Therefore an alternative way forward may be to establish contracts with an initial three year guarantee, followed by annual performance review which could trigger two year extensions.
- 9.2 Wherever possible, work will be specified in output performance terms and various trials are currently in hand to evaluate what is practical and how outputs can be realistically evaluated. It is likely that some areas will need to be included on a developmental basis where both parties work together to refine a solution with incentives to encourage innovation and performance improvement.
- 9.3 Finally, consideration has been given to the method by which white and blue collar partners could be brought together within such a contract. Here the choices are finely balanced. The two most favoured options are either to run parallel selection processes and bring the parties together by way of "forced marriage" under an overarching partnership agreement or to allow the parties to self select and set up a Joint Venture before submitting to the initial selection process.

10. Initial Reaction from Key Interest Groups

10.1 Potential Partners

Providers have given the proposed concepts an enthusiastic welcome and have confirmed their belief that significant service improvements can be achieved. The options to self select their own strategic partners prior to submitting an expression of interest is the most commonly supported way forward although some consultants have expressed concern at the potential to diminish their effectiveness in such an arrangement.

10.2 Staff

Staff have engaged in the processes so far employed and have been instrumental in developing certain of the emerging ideas. Although generally accepting the need to change and acknowledging the logic of streamlining the supply chain, not surprisingly there is considerable uncertainty and there remains real concerns regarding their future roles.

10.3 District Councils

As yet there is not a consensus view although most Districts gave a cautious welcome to the concepts. There remains a strong view that Districts have an important role to play and are best placed to provide local input. Several Districts claim that they could and should be allowed to provide certain highway services directly.

11. Conclusions and Issues for Further Consideration

11.1 It should be stressed that what is being proposed is not a facilities management type contract but an alliance whereby the benefits of working in a strategic partnership are exploited to the full but within a client managed environment.

11.2 The concepts described at para. 8.2 represents a significant step change in the way the highway service can be delivered. They offer enormous potential to enhance the effectiveness and in time the efficiency of the service. However, such a step is not without risk and will need very careful implementation. The risks are currently being analysed, although many will only be capable of minimisation as part of the tendering and final negotiation with the preferred supplier.

11.3 The concepts fit well with the Corporate Best Practice Guidance which was endorsed in the recent Best Value Procurement Review.

11.4 The establishment of the asset management approach to highway management is a vital element and puts the concept at the heart of the client structure. Work is currently advanced in developing the initial asset plan with the main full plan programmed for October 2001. However, the Department is currently experiencing difficulty in attracting and retaining suitable staff to take forward the asset management approach and its computerised support systems. The

system needs to be proved and available by the October 2002 contract start date.

- 11.5 In order to provide both a consistent countywide core highway service and meet local community needs demands the retention of a cadre of locally responsible officers based close to their clients. The number of offices to be employed however must satisfy several conflicting requirements: a desire to minimise administrative costs, the provision of a sufficient nucleus of specialist staff if split between offices, and the political imperative to have a local presence. Initial work suggests that it is unlikely that ten offices will be practical and at this stage four to five appear to represent a balanced compromise, taking into account the contractors' logistical requirements.
- 11.6 The recent development of Joint County District Partnerships, including the transfer of District staff to County employees and the establishment of a Joint Member advisory panel, appears to fit well with the preferred arrangement. The delegation of locally determined budgets can also be managed via these partnerships.
- 11.7 The new contract arrangements will need to facilitate Districts who wish to enhance service standards. If ten District offices are no longer to be the norm then it will be essential to maintain named officer contacts responsible to each District Joint Member Panel. They would implement decisions arising from the delegated budget and generally facilitate local comment on annual strategic asset plans. This overall strategy should continue to form the basis for taking forward discussions with Districts.
- 11.8 The programme (Appendix 4) indicates that EU Notice inviting expressions of interest should be posted during February 2001 and this will need to proceed on the basis of agreed concepts in order to select potential partners.
- 11.9 The complexity of the above issues suggests it would be appropriate for the Executive Member for Environment to draw together a small member group to overview progress and to guide the detailing of the contract through to implementation.

OBJECTIVES FOR THE REVIEW OF THE DELIVERY OF HIGHWAY SERVICES

Overall Objective

To continually improve the efficiency and effectiveness of highway services to all sections of the community within available budgets whilst delivering BVPP and LTP promises.

The following objectives **in bold** (A, B, C, D and E) are key objectives that contribute to the overall objective. The objectives below objectives A, B, C, D and E are contributory objectives to the key objectives.

A. To streamline the supply chain in order to deliver the defined standards set for highway service in the most effective and efficient way

A1 To remove unnecessary bureaucracy and duplication in the supply chain

A2 To deliver services from the appropriate link in the supply chain

A3 To have a system that will control and evaluate performance

A4 To reduce total service costs by at least 2% per year over 5 years in line with Best Value

A5 To develop relationships with our suppliers that incentivises performance for Hertfordshire's customers (eg performance contract, contract renewal, shared savings)

A6 To operate effective project management

A7 To have a system/process to set and measure the quality of the service (Asset Management)

A8 To deliver an integrated service

B To support and advise members in all their roles in a professional manner such that we have their trust and confidence

- B1. To give good officer support for members on local issues.
- B2. To have systems in place that allow available resources to be allocated in accordance with agreed priorities.
- B3. To have adequate resources (Client or Provider) available to brief local members on projects and issues.
- B4. To have adequate resources available to service and support all member processes.
 - Executive Member
 - Cabinet
 - Scrutiny Panel
 - Local Area Panels
 - Partnership Panels

C To have a supply chain that can respond and adapt to change

- C1 To have arrangements with suppliers to enable the service to alter in response to financial and/or political change
- C2 To manage change in accordance with the Change Charter

D To engage with the community and provide a service that is responsive

- D1 To provide a consistent core service with the ability to reflect local community needs
- D2 To have designated contacts with the local community
- D3 To provide information and access to services for individuals and local groups (Customer Service Centre, Herts Direct)

E To ensure that all staff engaged in delivering Highway Services are effectively and fairly managed so that they are valued, properly supported and have clear roles and responsibilities

- E1 To ensure that staff have appropriate skills to carry out their roles.
- E2 To have adequate resources (people and systems) available to allow staff to carry out their roles
- E3 To incorporate requirements in contracts to ensure that suppliers adopt appropriate standards