



Notice of meeting of

Highways Maintenance Scrutiny Committee

To: Councillors Moore (Chair), Simpson-Laing (Vice-Chair),
Cregan, Healey, Hogg, R Watson and Blanchard

Date: Wednesday, 30 January 2008

Time: 5.00 pm

Venue: The Guildhall

AGENDA

1. Declarations of Interest

At this point Members are asked to declare any personal or prejudicial interests they may have in the business on this agenda.

2. Minutes (Pages 3 - 6)

To approve and sign the minutes of the last meeting of the Committee held on 7 November 2007.

3. Public Participation

At this point in the meeting members of the public who have registered their wish to speak can do so. Anyone who wishes to register or who requires further information is requested to contact the Democracy Officer on the contact details listed at the foot of this agenda. The deadline for registering is 5pm on Tuesday 29 January 2008.

**4. Review of Highways Maintenance (Part B) – (Pages 7 - 56)
Draft Final Report**

This report asks Members to consider and agree any necessary changes / additions to the draft final report and associated annexes for Scrutiny Management Committee on the Highways Maintenance review.

5. Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:

Name: Tracy Wallis

Contact Details:

- Telephone – (01904) 552062
- E-mail – tracy.wallis@york.gov.uk

For more information about any of the following please contact the Democracy Officer responsible for servicing this meeting

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

About City of York Council Meetings

Would you like to speak at this meeting?

If you would, you will need to:

- register by contacting the Democracy Officer (whose name and contact details can be found on the agenda for the meeting) **no later than 5.00 pm** on the last working day before the meeting;
- ensure that what you want to say speak relates to an item of business on the agenda or an issue which the committee has power to consider (speak to the Democracy Officer for advice on this);
- find out about the rules for public speaking from the Democracy Officer.

A leaflet on public participation is available on the Council's website or from Democratic Services by telephoning York (01904) 551088

Further information about what's being discussed at this meeting

All the reports which Members will be considering are available for viewing online on the Council's website. Alternatively, copies of individual reports or the full agenda are available from Democratic Services. Contact the Democracy Officer whose name and contact details are given on the agenda for the meeting. **Please note a small charge may be made for full copies of the agenda requested to cover administration costs.**

Access Arrangements

We will make every effort to make the meeting accessible to you. The meeting will usually be held in a wheelchair accessible venue with an induction hearing loop. We can provide the agenda or reports in large print, electronically (computer disk or by email), in Braille or on audio tape. Some formats will take longer than others so please give as much notice as possible (at least 48 hours for Braille or audio tape).

If you have any further access requirements such as parking close-by or a sign language interpreter then please let us know. Contact the Democracy Officer whose name and contact details are given on the order of business for the meeting.

Every effort will also be made to make information available in another language, either by providing translated information or an interpreter providing sufficient advance notice is given. Telephone York (01904) 551550 for this service.

যদি যথেষ্ট আগে থেকে জানানো হয় তাহলে অন্য কোন অর্ধাতে তথ্য জানানোর জন্য সব ধরনের চেষ্টা করা হবে, এর জন্য দরকার হলে তথ্য অনুবাদ করে দেয়া হবে অথবা একজন দোঅবী সর্ববরাহ করা হবে। টেলিফোন নম্বর (01904) 551 550।

Yeteri kadar önceden haber verilmesi koşuluyla, bilgilerin terümesini hazırlatmak ya da bir tercüman bulmak için mümkün olan herşey yapılacaktır. Tel: (01904) 551 550

我們竭力使提供的資訊備有不同語言版本，在有充足時間提前通知的情況下會安排筆譯或口譯服務。電話 (01904) 551 550。

اگر مناسب وقت سے اطلاع دی جاتی ہے تو ہم معلومات کا ترجمہ مہیا کرنے کی پوری کوشش کریں گے۔ ٹیلی فون (01904) 551 550

Informacja może być dostępna w tłumaczeniu, jeśli dostaniemy zapotrzebowanie z wystarczającym wyprzedzeniem. Tel: (01904) 551 550

Holding the Executive to Account

The majority of councillors are not appointed to the Executive (38 out of 47). Any 3 non-Executive councillors can 'call-in' an item of business from a published Executive (or Executive Member Advisory Panel (EMAP)) agenda. The Executive will still discuss the 'called in' business on the published date and will set out its views for consideration by a specially convened Scrutiny Management Committee (SMC). That SMC meeting will then make its recommendations to the next scheduled Executive meeting in the following week, where a final decision on the 'called-in' business will be made.

Scrutiny Committees

The purpose of all scrutiny and ad-hoc scrutiny committees appointed by the Council is to:

- Monitor the performance and effectiveness of services;
- Review existing policies and assist in the development of new ones, as necessary; and
- Monitor best value continuous service improvement plans

Who Gets Agenda and Reports for our Meetings?

- Councillors get copies of all agenda and reports for the committees to which they are appointed by the Council;
- Relevant Council Officers get copies of relevant agenda and reports for the committees which they report to;
- Public libraries get copies of **all** public agenda/reports.

City of York Council

Committee Minutes

MEETING	HIGHWAYS MAINTENANCE SCRUTINY COMMITTEE
DATE	7 NOVEMBER 2007
PRESENT	COUNCILLORS MOORE (CHAIR), SIMPSON- LAING (VICE-CHAIR), CREGAN, HEALEY, HOGG, R WATSON AND BLANCHARD

9. DECLARATIONS OF INTEREST

Members were invited to declare, at this point in the meeting, any personal or prejudicial interests they might have in the business on the agenda. No interests were declared.

10. MINUTES

RESOLVED: That the minutes of last meeting held on 28th August 2007 be approved and signed as a correct record with the following amendment to Minute 8 (amendment shown in italics):

- Having no *permanent* Section Head in Highway Infrastructure had resulted in there being limited progress made between February 2002 and June 2003.

11. PUBLIC PARTICIPATION

It was reported that there had been no registrations to speak under the Council's Public Participation scheme.

12. INTERIM REPORT FOR HIGHWAYS MAINTENANCE PROCUREMENT & PFI REVIEW (PART B)

Members considered the Interim Report for Highways Maintenance Procurement and PFI Review.

The Director of City Strategy answered questions from Members as set out in Annex D of the report; he gave the following responses to the questions tabled by Councillor Merrett:

Question 1 In terms of the internal management of the Highways Maintenance Procurement Process the designated lead Officer was the head of Highways and Street Operations. The progress of the implementation programme was monitored by Chief Officers.

Question 2 There had always been a Head of Highways infrastructure, but at the time in question he had been seconded into

another post. The post was temporarily covered by Ray Chaplain. The Directorate was undergoing a major restructure at the time and in April 2006 Paul Thackray was appointed to the post on a temporary basis and in June 2006 was appointed on a permanent basis.

Question 3 At the time it was thought that a 1½ year timescale was a reasonable timeframe for this process. There were certain complexities being experienced at York regarding the way the contract would be apportioned and this led to the process being delayed for over a year. It was now known that it was advisable to define the scope of the process much earlier and not mix internal and external tenders. The decision on whether to retain in-house services as opposed to external services was a decision that should have been made at an earlier stage in the process. The Best Value Review findings had not been specific enough and did not indicate the way forward thus leaving much room for debate.

The Director of City Strategy responded to Councillor Healey's questions as follows:

Question 1 When the funding of the dedicated Project Manager was declined in 2002/03 the Officers continued with the Best Value Review work. The lack of a Project Manager did not have a significant effect on paying back the Venture Fund but was significant in relation to other issues.

Question 2 The total amount borrowed was £433k and this was provided over 2 years:

- £162k in 2003/04
- £271k in 2004/05

Repayments were originally scheduled over 2 years:

- £250k in 2005/06
- £183k in 2006/07

To date the payments made are:

- £80k in 2005/06 (from directorate underspends)
- £225k in 2006/07 (£100k from the budget and £125k from capital underspend)

Proposals to finish repayments are:

- £50k in 2007/08
- £50k in 2008/09
- £28k in 2009/10 (but we will try to clear the debt in 2008/09)

The expectation is that we will therefore finish repaying the loan 2 years later than originally planned.

Question 3 It has been a long established principal of City of York Council that any savings made go back to a central pot and everybody can apply for some of that money. The monies used to set up the Street Environment Service were monies that could be realised from savings over time. The Directorates were very different at the time that the Street Environment Service was set up and since then there had been enormous changes including a very large departmental re-organisation. The 2003 elections had led to a change in direction for the City of York Council and the ultimate creation of the Neighbourhood Services Directorate.

The Assistant Director of City Strategy updated Members in relation to the Council's Expression of Interest (EOI) and the Private Financial Initiative (PFI). He reported that credits had been allocated to Birmingham City Council but believed that more credits would be made available in the future. The Department for Transport (DfT) had appointed a new local liaison Officer and there had been frequent meetings with them about some of the issues that the Council faced. It was reported that if City of York Council were successful and decided they wanted to continue there would be a significant risk attached to the procurement process.

RESOLVED: Having considered the information provided by Officers at the meeting and within the report and annexes Members concluded that:

1. There were delays in implementing the actions agreed as part of the Best Value Review, but these were not considered unnecessary.
2. This had an impact on the Venture Fund and payments had to be restructured.

REASON: To clarify if there has been any financial loss to the Council caused by delays in the procurement process since 2003.

Councillor R Moore, Chair
[The meeting started at 6.05 pm and finished at 7.05 pm].

This page is intentionally left blank



Highways Maintenance Ad-hoc Scrutiny Committee

30 January 2008

Review of Highways Maintenance (Part B)– Draft Final Report

Summary

1. This report asks Members to consider and agree any necessary changes / additions to the draft final report and associated annexes for Scrutiny Management Committee attached at Annex A & Annexes Aa - Ae.

Background

2. At its meeting in September 2006, Scrutiny Management Committee (SMC) agreed to proceed with a review of topic No.135 into Highways Maintenance Procurement and the PFI bid. The issues raised within the registered topic were split into parts A & B. At a meeting of SMC in March 2007 the final report for Part A was presented and the following remit for Part B of this review was agreed:

Aim

3. To examine how the Council can fund the PFI and gain an understanding of the alleged financial loss to the council caused by delays in the procurement process since 2003.

Objectives

4. The above aims to be achieved through the following objectives:
 - a. To examine the financial information that was provided to Urgency Committee in September 2006 including the key financial risks highlighted within the report
 - b. To investigate the figures included in the report which advised Members to go ahead with the PFI approach to Highways Maintenance Procurement
 - c. To compare the actual cost to the Council since 2003 in respect of Highways procurement to the costs originally included in the Best Value Review of 2001

Consultation

5. This review was progressed in consultation with the Assistant Director of City Development & Transport and other key officers in City Strategy.

Options

6. Having regard to the aims and objectives of this topic remit and having considered the information provided in the draft final report and associated Annexes (see Annexes A & Aa-Ae attached), Members may either :
 - Sign off the final report and annexes in their current form for consideration by SMC or;
 - Agree any amendments or additional information to be made to the draft final report and annexes, prior to their consideration by SMC

Analysis

7. In regard to the objectives considered, the final report and annexes detail all of the information gathered and identify the issues arising. Once Members have given them due consideration, any identified additions or amendments will be made prior to their presentation to SMC.

Implications

8. There are no specific financial implications arising as a consequence of the recommendations made within the final draft report. However, the PFI has significant financial implications which will be identified in future EMAP / Executive reports.
9. There are no known HR, Equalities, Legal, Crime and Disorder, ITT, Property or Other implications associated with the recommendations in this report

Risk Management

10. There are no known risks associated with the recommendations contained within this report.

Corporate Priorities

11. It is recognised that this review could contribute to improving 'the actual and perceived condition and appearance of the city's streets, housing estates and publicly accessible spaces' by helping to improve the Council's procurement arrangements for highways maintenance. In rationalising our procurement arrangements, it could also help in our ambition to be clear about what we will do to meet the needs of our communities and then to deliver the best quality services that we can afford.

Recommendation

12. In light of the above options, Members are asked to agree if any amendments are required to the final report and its associated annexes.

Reason: In order that this information can be included in the final report to be considered by SMC and the review concluded.

Contact Details

Author:

Melanie Carr
Scrutiny Officer
Scrutiny Services
Tel No. 01904 552063

Chief Officer Responsible for the report:

Dawn Steel
Democratic Services Manager

Interim Report Approved

Date 21 January 2008

Wards Affected:

All

Author:

Chief Officer Responsible for the report:

For further information please contact the author of the report

Annexes

- Annex A – Draft Final Report for SMC
- Annex Aa – Best Value Review Information
- Annex Ab – Urgency Committee Report
- Annex Ac – Overview of Approach to Benchmarking Costs
- Annex Ad – Timeline of Events
- Annex Ae - Outcome of Best Value Review

This page is intentionally left blank



Scrutiny Management Committee

25 February 2008

Final Report for Part B of the Highways Maintenance Procurement & PFI Ad-hoc Scrutiny Review

Background

1. At its meeting in September 2006, Scrutiny Management Committee (SMC) agreed to proceed with a review of topic No.135 into Highways Maintenance Procurement and the PFI bid. The issues raised within the registered topic were split into parts A & B. At a meeting of SMC in March 2007 the final report for Part A was presented and the following remit for Part B of this review was agreed:

Aim

2. To examine how the Council can fund the PFI and gain an understanding of the alleged financial loss to the council caused by delays in the procurement process since 2003.

Objectives

3. The above aims to be achieved through the following objectives:
 - A. To examine the financial information that was provided to Urgency Committee in September 2006 including the key financial risks highlighted within the report
 - B. To investigate the figures included in the report which advised Members to go ahead with the PFI approach to Highways Maintenance Procurement
 - C. To compare the actual cost to the Council since 2003 in respect of Highways procurement to the costs originally included in the Best Value Review of 2001
4. In 2001 when the Best Value Review was originally considered, 7 proposals were made and a decision was taken to implement the following 2 options:

Option 1 - To improve the efficiency of the current system

Option 2 - Change the basis of contractual arrangements and extend the scope of the mixed economy of service provision that currently exists

5. In order to achieve these options, 11 improvement objectives were identified:
- Produce a Highways Maintenance Management Plan.
 - Review the current approach to managing and planning the service.
 - Develop an operating culture of 'Right First Time'.
 - Increase the customer orientation of the service.
 - Improve the quality of financial information.
 - Further improve the efficiency and effectiveness of staff who deliver the service.
 - Develop procurement practices and partnership working.
 - Review the remit of the Highways Maintenance Service.
 - Raise the profile and understanding of the service and develop understanding of customer needs.
 - Increase the quality of the finished product delivered.
 - Further increase and improve knowledge of the highway asset.

Consultation

6. This review was progressed in consultation with the Assistant Director of City Development & Transport and other key officers in City Strategy.

Objectives A & B

To examine the financial information that was provided to Urgency Committee in September 2006 including the key financial risks highlighted within the report

To investigate the figures included in the report which advised Members to go ahead with the PFI approach to Highways Maintenance Procurement

Information Gathered

7. At a meeting in June 2007, officers provided detailed information (see Annex A) on the following:
- Clarification on the outcome of the Best Value Review (BVR)
 - Table showing the cashable efficiencies gained as a result of the BVR
 - Budgets for highways maintenance from 2002 to 2007
 - Comparison of the staffing resources of 2004 and 2007, associated with the provision of highway maintenance
8. This together with the financial information previously presented to Urgency Committee in September 2006 (see Annex B), was used to support Members during their investigation of the first two objectives of this review.
9. In October 2007, Members received information on work which was ongoing to benchmark the whole of the Highways Maintenance Service (see Annex C) together with a verbal update in relation to the Council's Expression of Interest (EOI).

Issues Arising

10. The Committee were informed that a new local Liaison Officer had been appointed by the Department for Transport (DfT), and a number of meetings had been held to discuss some of the issues that the Council faced. It was made clear to the Committee that should City of York Council's EOI be successful and if a decision was taken to continue, there would be a significant risk attached to the procurement process.

Objective C

To compare the actual cost to the Council since 2003 in respect of Highways procurement to the costs originally included in the Best Value Review of 2001

Information Gathered

11. The Committee recognised that it has taken longer than expected to implement the Highways Maintenance Procurement and the PFI Expression of Interest process identified in the Best Value Review of 2001. In order to identify whether the timescale involved had adversely affected the cost to the Council and resulted in the actual cost being over and above that which was originally included in the Best Value Review of 2001, Members were provided with information on the timeline of decisions together with a summary of the reports and minutes (see Annex D).
12. Members also received information on the outcome of the Best Value Review objectives which highlighted the extent to which each objective had been delivered (see Annex E).

Issues Arising

13. Having considered all the information provided the Committee agreed that their fundamental concern was the time taken to realise the savings identified as part of the Best Value Review. The Committee raised a number of questions and were informed by officers that:
 - On conclusion of the review there had been no available funding to appoint a Project Manager. The lack of a Project Manager did not have a significant effect on paying back the Venture Fund but was significant in relation to other issues.
 - In terms of the internal management of the Highways Maintenance Procurement Process the designated lead Officer was the head of Highways and Street Operations, and progress of the implementation programme was monitored by Chief Officers.
 - There was always a Head of Highways Infrastructure, but at the time in question the officer had been seconded into another post. The post was temporarily covered by Ray Chaplain and at the same time, the Directorate underwent a major restructure

- Having no permanent Section Head in Highway Infrastructure had resulted in there being limited progress made between February 2002 and June 2003.
- In April 2006 a Head of Highways infrastructure was temporarily appointed, and in June 2006 this became permanent.
- A continuous Service Improvement Plan (CSIP) was agreed and followed and progress was routinely reported on up until September 2004.
- At the time of starting to implement the CSIP, a decision was made to commence setting up a thin client approach to procurement and that problems arising from this had resulted in delays in implementing the CSIP.
- Officers would have preferred a negotiated route for procuring thin client services but on the advice of Corporate Procurement had taken a restricted route.
- As a small authority there was little flexibility to move resources around without causing knock on effects.
- Originally it was thought that a 1½ year timescale for the procurement and tender process was a reasonable timeframe but as there were certain complexities experienced regarding the way the contract would be apportioned this led to the process being delayed for over a year.
- The Best Value Review findings were not specific enough and did not indicate the way forward thus leaving much room for debate e.g. the decision on whether to retain in-house services as opposed to external services was a decision that should have been made at an earlier stage in the process. As a result, it is now known that it is advisable to define the scope of the process much earlier and not mix internal and external tenders.
- Even though all their advice was followed, at the point when the contract was ready to be signed, Procurement recommended that work be put on hold due to the perceived level of risk associated with the contract.
- Issues around the lack of resources in Corporate Procurement had since been addressed.
- In October – November 2002, Members agreed to finance a new Street Environment Service from the Venture Fund after Officers recommended that the money could be repaid from the savings made in Highways Maintenance as identified by the Best Value Review.
- It has been a long established principal of City of York Council that any savings made go back to a central pot and everybody can apply for some of that money. The monies used to set up the Street Environment Service were monies that could be realised from savings over time.
- The Directorates were very different at the time that the Street Environment Service was set up and since then there had been enormous changes including a very large departmental re-organisation.
- The total savings made in Highways Maintenance were significantly higher than those identified by the Best Value Review, but it had taken longer to realise these savings than originally expected.
- As a result it took significantly longer to repay the monies taken from the Venture Fund to finance the Street Environment Service :

Total amount borrowed		£433k
provided over 2 years:		
2003/04	£162k	
2004/05	£271k	
Payments originally scheduled over 2 years:		
2005/06	£250k	
2006/07	£183k	
Actual Payments made:		
2005/06 (from Directorate under spends)		-£80k
2006/07 (£100k from budget & £125k from capital underspend)		-£225k
		<hr/> £128k
Proposals to finish repayments are:		
2007/08		£50k
2008/09		£50k
2009/10 (will try to clear the debt in 2008/09)		£28k

14. It was recognised that in order to prevent similar problems and delays arising with any future major projects, there were a number of possible steps that could be taken:
- Resourcing of major projects be prioritised across the Authority within all relevant departments i.e. Legal, Resources and Property Services.
 - A steering group be formed, made up of Members and key Officers from relevant departments.
 - Finance be made available to appoint a Project Manager.
15. All of these steps have been allowed for within City of York Council's PFI bid, as this is the standard of working expected by the Department of Transport.

Analysis

16. As a result of all of the information provided during this review, the Committee have recognised the following:
- Since the Best Value Review of 2001 there have been major changes in direction for the Council leading to significant changes within Directorates and ultimately to the creation of the Neighbourhood Services Directorate
 - These changes have resulted in delays in implementing the actions agreed as part of the Best Value Review
 - The total savings made in Highways Maintenance since the Best Value Review are significantly higher than those identified but due to the delays, the savings have taken longer to realise

- In regard to the Venture Fund, the repayment schedule has not been adhered to and it is now expected to take 2 years longer than originally planned to repay the amount borrowed from the fund.
17. Members concluded that the changes to the Directorates were necessary to meet the demands of the City and therefore the delays in implementing the actions and repaying the fund could not be considered as unnecessary.

Options

18. Having regard to the remit for Part B of this review, Members may decide to:
- i) resolve the recommendations within this report or;
 - ii) agree some amended recommendations

Implications

19. There are no specific financial implications arising as a consequence of the recommendations made in this report. However, the PFI has significant financial implications which will be identified in future EMAP / Executive reports.
20. There are no known HR, Equalities, Legal, Crime and Disorder, ITT, Property or Other implications associated with the recommendations in this report

Risk Management

21. There are no known risks associated with the recommendations in this report.

Corporate Priorities

22. It is recognised that this review could contribute to improving 'the actual and perceived condition and appearance of the city's streets, housing estates and publicly accessible spaces' by helping to improve the Council's procurement arrangements for highways maintenance. In rationalising our procurement arrangements, it could also help in our ambition to be clear about what we will do to meet the needs of our communities and then to deliver the best quality services that we can afford.

Recommendation

23. Having considered all the information provided within the report and annexes, Members are asked to agree with the findings of the Highways Maintenance Ad-Hoc Scrutiny Committee that:
- there has been an impact on the repayments to the Venture Fund caused by the delays in implementing the actions agreed as part of the Best Value Review
 - The delays were not unnecessary

- The total savings made in Highways Maintenance since the Best Value Review are significantly higher than those identified therefore there has been no financial loss to the council caused by the delays in the procurement process

Contact Details

Author:

Melanie Carr
Scrutiny Officer
Scrutiny Services
Tel No.01904 552063

Chief Officer Responsible for the report:

Dawn Steel
Democratic Services Manager

Interim Report Approved

Date

Wards Affected:

All

For further information please contact the author of the report

Background Papers: Final Report for Part A of this review dated 26 March 2007

Annexes:

Annex Aa – Outcome of Highway Maintenance Best Value Review

Annex Ab – Urgency Committee Report dated 5 September 2006

Annex Ac – Overview of Approach to Benchmarking Costs

Annex Ad – Table of Events in relation to Highways Maintenance Procurement & the PFI Process

Annex Ae - Outcomes of Best Value Improvement Objectives and Actions

This page is intentionally left blank

Outcome of Highway Maintenance Best Value Review

The Highway Maintenance Best Value Review of 2001 had 11 Improvement Objectives and 7 Proposals for consideration. The agreed recommendations were that Proposals 2 & 5 were accepted, namely a twin track approach to set up a Highway Improvements Team and to investigate the most effective way to procure the services.

These recommendations were followed with the setting up of the Highways Improvement Team between DEDS and CSO and with the examination of alternative procurement options, the decision to pursue an outcome based partnership approach and the procurement exercise, followed by the PFI Expression of Interest. Neither of the recommendations carried with it a definitive target to reduce costs and/or increase efficiencies but this was at the heart of both recommendations. The absence of firm financial targets makes it difficult to make comparisons with what has happened from 2003 but clearly there was a desire to meet the Council's 5 year target of 20% savings, equivalent to an annual cost saving of £220k.

Service Procurement from 2003

As Members will know the partnership procurement exercise did not result in the award of a contract in March 2006, due to risks being assessed as unacceptable. In the absence of a partnership contract, which would have encompassed a number of existing smaller contracts, these smaller contracts have been retendered. This is the case with Resurfacing and Reconstruction (R&R) works and the Street Lighting Service, retendered in 2006 and 2007 respectively. The third main element of the overall service provision is the arrangement with Neighborhood Services (NS) for the supply of routine Highway Maintenance Services, incorporating small R&R works. It is not a legal requirement to tender this work and arrangements have been made to continue the supply of these services from NS, subject to a forthcoming report to Members to demonstrate the effectiveness of these arrangements in line with the procurement strategy adopted by the Council.

It is possible that all the arrangements currently in place could continue to 2010/11 where they can then be aligned to fit in with whatever new form of procurement is decided upon. An option for the future is Highway Maintenance PFI, subject to DfT approval of the Expression of Interest, a decision to accept this PFI scheme by the Council and successful completion of the lengthy and very complex PFI process.

Demonstration of Efficiencies from 2003

Gershon efficiencies can be cashable and non-cashable. A recently produced Local Highway Efficiency Toolkit, to demonstrate how savings should be calculated, is available on the following website www.rcoe.gov.uk/rce/aio/31679

This can be used to examine efficiencies over any period of time and staff are currently doing this for the period 2003 to 2007. The toolkit allows us to calculate efficiencies in terms of cashable and non-cashable savings. It provides quite simple Quality Cross Checks to ensure that we only use efficiencies that result in the same, or increased, levels of service. It is, however, a time consuming process and with the limited staff resources available it is not expected that the outcome of this exercise will be available for the meeting on 20 June 2007.

However to give Members an indication of the types of efficiencies improvements that have been obtained since 2003, by a variety of means, the following may be helpful. It is a non-exhaustive list a cashable efficiency improvements that have been introduced since 2003. The exact amounts are often difficult to determine, other than in approximate terms, and this approach has been used.

Efficiency Improvement Table

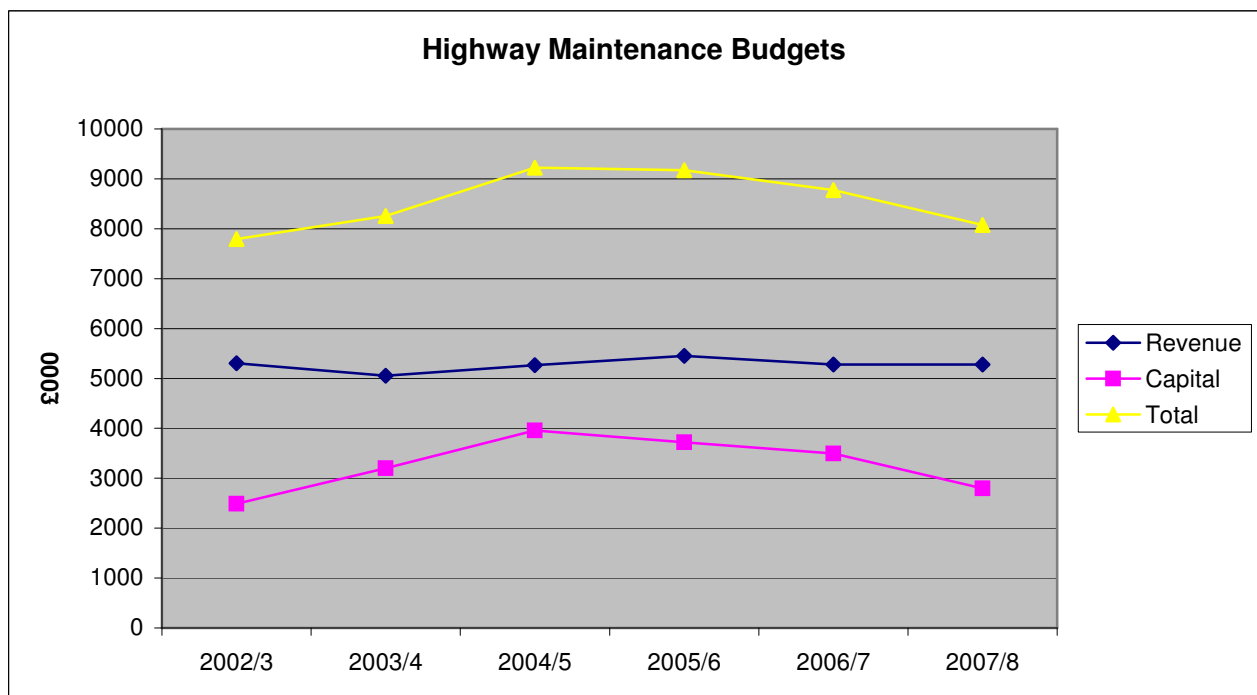
Examples of Cashable Efficiency - through improvement in cost	Estimated Cashable Efficiency (£k) in 2007	Comment
Design, manage and build approach to small R&R schemes (NS)	55 recurring	Total package of works provided by NS. Schemes design on a 'fit for purpose' basis
Savings on public liability claims through improved safety inspections and robust defense (HI & NS)	150 recurring	Very high levels of repudiation due to systems in use – such as the efficiencies due to Driver + Inspector operation meaning that more is inspected.
Energy procurement savings from 2006 supply arrangement (HI)	255 recurring to end of present contract	A revised procurement of 'green' energy produced savings on the budgets through to Oct 2008
Works programme efficiencies	75	Dependent on savings made possible through provision of a <u>full</u> works programme enabling efficient employment of staff and resources in NS
Possible savings on inflation if the Roadcon indices used in the 'Efficiency Toolkit' is higher than that actually used on the term maintenance contract (HI & NS)	??	(details being obtained)
Recovery of maintenance costs from third parties (HI)	20 recurring	Staff have developed improved systems and are being more successful in the recovery of money
CVI and DVI inspections carried out in-house (HI)	10 recurring	Staff have been trained to do this work and outcomes are consistent. Experience of outsourcing the work is that quality is poor or variable.
Area working (NS)	200 recurring non-cashable saving providing increased efficiency	By marking up work that is likely to breach intervention levels within 6 months and working on an area by area basis we have been able to carry out 30% more work for the same money
Savings on the use of Safecoat (HI)	50 recurring	This material has saved money and is less harmful to the environment
R&R scheme savings from	350 in 2007 but	The latest contract with Tarmac has

2006 procurement [net savings taking into account increases on SD and SS schemes] (HI & EC)	this depends on the size of the budget and the mixture of the works	produced typical savings of 29% on R&R schemes but an increase in costs on surface dressing and slurry seal works
Saving from 2007 procurement for street lighting (HI)	70 recurring to the end of the contract	The recent procurement has produced savings and has introduced efficiencies through improved routine maintenance
Gully cleaning efficiency due to 'Thursday' cleans (HI & NS)	10 recurring	Rather than have a reactive gully cleaning service that is inefficient, reactive cleans are now programmed for Thursdays each week (this excludes emergencies).
Total of estimated cashable efficiency improvements listed above	1,245	BVR sought savings of £1,100K in first 5 years (2006/7) . There are expected to be other savings and efficiencies, mainly the non-cashable sort, that may be identified in the work being done on the Local Highway Efficiency Toolkit exercise.

There was a requirement for the highway maintenance budgets to repay to the venture fund the sum of £377k to cover the costs of setting up the Street Environment Service and servicing the loan, which was taken out of the highway maintenance base budget.

Highway Maintenance Budgets

The graph below shows the budgets for the revenue and capital elements of highway maintenance over the period 2002/03 to 2006/07.



Notes

1. The revenue budget is the net figure covering a combination of service costs, recharges, income, staff and support service costs.
2. The revenue budget is under considerable pressure, it is not keeping pace with inflation or with the ever increasing size of the highway asset, for example if inflation is assumed to be 2.5% per year from 2002/03, the budget in 2007/08 should be approximately £5900k rather than £5276k.
3. Capital funding is subject to variation due to the effects of Prudential borrowing since 2003/04, the amount of structural maintenance funding in the LTP and the varying level capital receipts available to the Council.
4. The cost of the procurement exercise, that took place in 2004/05 and 2005/06, was £160k. This covers the cost of dedicated staff and advisers as well as other miscellaneous costs associated with the procurement. It is not included in the revenue budgets in the graph.
5. Customer satisfaction and highway surface conditions have generally improved over the period, as measured by the various PIs.

Comparison of CYC staff numbers delivering the highway maintenance service 2003 to 2007

The staffing, associated with the provision of the highway maintenance service within the various teams in the Highway Infrastructure Section, are shown in the table below:

Post/Team	2003 staff numbers	2007 staff numbers
Section Head	1	1
Maintenance Manager	1	1
Post/Team	2003 staff numbers	2007 staff numbers
Maintenance Team	9	7 + 1 Driver -2 Eng Tech - 1 Tech Clerk
NRSWA Team	4	4
Street Lighting Team	2	2
Support Team	5	3.5 -1 PO, - 0.5 T.Clerk
Asset Manager	1	1
Asset Management Team	3	2.5 -1 Eng Tech + 0.5 Exor Dev Officer
Total	26	22

The change in staff over the period is due to the efficiency effects of restructures, budget savings and growth. It represents a reduction of 15.4%. The main staff changes over the 4 year period are:

Increases in staff numbers	Decreases in staff numbers
1 no. Safety Inspection Driver	1.5 no. Technical Clerks
1no.Exor Development Officer (50% of time spent on highway maintenance)	3 no. Engineering Technicians (Inspectors) 1 no. Principal Officer (Support Team)

In addition to the above a Procurement Manager was employed on a temporary contract basis for 2.5 years (July 2004 to February 2007) to assist mainly with the partnership procurement exercise and the PFI Expression of Interest.

The Exor Development Officer post is part of the Asset Management Team but this post supports the use of Exor across a range of Teams within various Directorates and is not totally involved in the highway maintenance service. Only 50% of this post has therefore been included in the figures above.

This page is intentionally left blank



Urgency Committee

5 September 2006

Report of the Director of City Strategy

Highway Services – PFI Option

Summary

1. This report is an item for consideration by the Urgency Committee. The reason for bringing this report at this time is due to the limited timescales available for the investigation of a PFI option and the preparation of an expression of interest for submission to the DfT by 10 September 2006.
2. This report advises on progress with the preparation pathfinder of the highway maintenance private finance initiative (PFI) Expression of Interest (EOI). It provides information on the key benefits and drawbacks associated with this project and recommends that subject to a manageable affordability gap being achieved, officers are delegated authority to submit the EOI to DfT by 10 September 2006.

Background

3. The previous procurement process reached the stage of Members appointing a preferred provider. The procurement was delayed in February 2006 to enable other options to be considered.
4. City Strategy is investigating a number of strategic options for the delivery of highways services and also the delivery of projects identified in the Local Transport Plan and other construction related initiatives. The options provided for consideration by the Executive on 2 May 2006 were:
 - A: Complete the current procurement for both parts of the service.
 - B: Abandon the current procurement and submit an EOI to the Department for Transport (DfT) for pathfinder status in Highways Management PFI.
 - C: Abandon the current procurement and retender an extended scoped package.
 - D: Abandon the current procurement and retender on the basis of a package of services under a term contract with an in-house client in the event that options B and C are unsuccessful.

Members agreed that the options B and C could be considered in the first instance to determine their suitability as an alternative to the previous procurement.

5. At the meeting of the Executive on 11 July 2006 it was agreed that a management and reporting structure should be put together including a Project Board and Member Steering Group to manage the procurement process. It also made provision for a report to be brought to this committee immediately prior to submitting PFI Expression of Interest so that Members could be advised of the progress in developing the project and seek their approval for submission.
6. The highway maintenance PFI project being offered by DfT has a total of £600 million in PFI credits and they are seeking schemes that provide “path finder” status. Our investigation has revealed that 10 to 12 authorities may be interested in the submission of an EOI. However our advisers think that a submission by the Council will have a better than average expectation of success and this is potentially excellent opportunity to achieve a level of investment that will make a significant improvement on the standard of the highway infrastructure.
7. By mid June financial and technical advisers had been procured and appointed, Deloitte and Halcrow respectively. Both of these organisations have considerable experience with PFI schemes and one of the few organisations that also have experience with the very limited amount of work already done with highway maintenance PFI projects.
8. Between the appointment of our advisers and the present time the following has been achieved, even though the timescales have been limited.
 - Discussions with 4P's (an advisory body to local government) have taken place to seek their advice on the approach to the project.
 - Discussions with DfT about content and format of the project and the EOI.
 - Soft market testing with 3 potential contractors/providers so that they assess the level of interest in a project and take their comments into account when developing the EOI.
 - Workshops with staff and advisers to determine.
 - Scope and content of the bid
 - Options and qualitative analysis
 - Explored the project and compare objections
 - Consider the financial implications of the project
 - Advised staff of progress through briefing notes and team briefs.

- Preliminary meetings with unions to advise on progress and seek their initial comments.
- Formatting and analysis a considerable amount of information in relation to the size and condition of the asset, to enable preparation of the cost elements of the financial model.
- Analysis of the highway maintenance backlog in a fundamentally different way based on a whole life approach as opposed to a budget led approach.
- The preparation of a draft EOI.

Expression of Interest

9. The draft EOI is in the final stages of preparation and will be available to send to DfT if a decision is made to submit. The content of the EOI is extensive, even though it is only a 10-page document, with supporting information allowed. The main content of the EOI is described in the following paragraphs.
10. The EOI sets the context of highway maintenance and traffic management assets in a regional and local significance. The importance of having well maintained assets that support social, environmental and economic factors is vital. Clearly the assets are part of and underpin the public transport systems of the City that provide accessibility for business, residents and visitors who use them. The EOI draws together the connections between the standard of the asset and the support which they give.
11. A description of the project is provided demonstrating how it flows from the overall objectives of the Council and how the project's design and implementation will deliver the benefits necessary to contribute towards achievement of these objectives. The description of the project will provide information about the scope of the services and the options considered.
12. The EOI will show how an options appraisal, in both qualitative and quantitative terms, allowed the preferred option to be identified. The way in which this preferred option fulfils the needs of the project will be clearly identified as well as being able to demonstrate value for money in accordance with Treasury Guidance.
13. A section in the EOI will give an early indication of the major risks that might affect the proposals and any mitigating actions or contingency to reduce these risks. The strategy for consulting stakeholders, including employees and trade unions, will be provided, including actions taken so far. Political and financial commitment to the project will be clearly demonstrated.
14. Project management capabilities and PFI experience within the Council will be demonstrated through the successful 'Schools PFI' and the work carried out to date on the waste management PFI project. The commitment to

provide adequate procurement funds to enable the project management team to obtain all the external professional assistance necessary will also be highlighted.

15. Due to the whole life costing approach, R & R schemes, for example, carried out under the PFI project would be designed to ensure maximum life expectancy, so that little or no further work is needed over the life of the PFI. The same approach would apply to structures and streetlights and this is significantly different to the current budget led approach.

Scope of the Project

16. There are six options being considered for the expression of interest. These are:-

- Option 1 – Do minimum
- Option 2 – Highway Maintenance, Management and Works
- Option 3 – Highway Maintenance, Management and Works and Traffic Management Infrastructure Works.
- Option 4 – Highway Maintenance, Management and Works and Street Cleansing Operations.
- Option 5 – Highway Maintenance, Management and Works and Traffic Management Infrastructure Works and Street Cleansing Operations.
- Option 6 – Highway Maintenance, Management and Works with limited life cycle works.

Following the qualitative evaluation of these six options, 2, 3 and 5 were selected as the ones for financial assessment and of those option 5 was selected as the preferred option.

- 17 In addition this option provides the best solution in terms of addressing the key objectives regionally, locally and for public transport. It also meets the specific objectives in relation to highway maintenance and to traffic management. The fit with street cleansing operations is problematic in so far as to extract it from the “street scene” services would leave it vulnerable to economics of scale. The budgets for highway maintenance and traffic management for 2006/07 are made up as follows:

CYC revenue	£5366k
CYC capital	£2325k
LTP capital	£1386k
 Total	 £9077k

This option gives the best value for money solution based upon the qualitative and quantitative scoring.

Quantitative and Qualitative Scoring

18. The proposed preferred option includes all those areas of service included in Annex 1. The table below contains a comparison between the extent of the service provided at present against those services anticipated under the PFI arrangement.

	Typical annual existing R&R treatment lengths (2006/07)	Typical annual PFI treatment lengths during the core investment period to rehabilitate the network.
A class carriageways	2.3 km	8.0 km
B + C class carriageways	1.7 km	10.2 km
Unclassified carriageways	3.9 km	21.2 km
Footway	13.6 km	40.0 km

In terms of street lighting, the annual programme allows 80 streetlights to be replaced. Under the PFI proposal, 90% of streetlights would be replaced over the life of the PFI at an average of 600 per year, but with the majority of this being in the core investment period.

19. In terms of financial investment the PFI arrangement is projected to deliver: -

	£ million
• Investment, mainly in surfaces, structures and streetlights over the 5 year CIP	121
• Life cycle costs in years 6 to 25	174
• Operation and maintenance costs in years 1 to 25	116
• Service and management costs in years 1 to 25	108
Total	519

20. Any future PFI arrangement will be with a specialist contractor/provider who will enter into a long term contract of 25 years. In the first 5 years there will be a significantly large investment into the asset and then a further 20 years in which the asset will be maintained to an agreed standard for handover back to the Council at the end of the period.
21. The contract will be a negotiated arrangement based upon the Council's requirements, objectives and output based specification. The quality of the work will be agreed with the contractor before the contract is signed as well as the method of payment. Contracts and payment methods are being standardised by the DfT, however this is a pathfinder project and they will be seeking innovative approach to the way that the contract is prepared.
22. A key theme for the Council's requirements is that sustainability should impact on all areas of the service and bidders for the contract will be required

to demonstrate how they intend to achieve this. In particular there will be a requirement for a sustainable approach both to the provision of energy and the equipment used in street lighting.

23. Quality and management of the service during the contract period will be monitored by a client side which will act in partnership with the provider. However the client size will be sufficient to ensure that standards are being achieved and quality maintained.
24. No other form of funding, other than PFI, can deliver this level of investment and improvement in the condition of the highway network. In the absence of a PFI scheme, there will be a gradual deterioration in the condition of the infrastructure until some other form of capital investment is obtained. The submission of an EOI is a unique opportunity for the City's benefit from a major capital investment which will maintain the highway to a much higher standard than could be achieved by any other means.

Key Financial Information

25. We are advised that the cost of procurement could be as high as £2.5 million over a 3½ year procurement period. This cost can be incorporated into the scheme but there is the risk if the PFI scheme does not reach financial closure then the Council will have to fund this cost. The £2.5m would be in a payment to the Council on contract signature.
26. There is a limited number of PFI credits available and a high level of competition from other local authorities is expected. The advice we are receiving is that the bid needs to be as financially attractive as possible. The two main ways of achieving this are through an additional financial commitment by the Council, over an above existing budgets, and by attempting to keep the PFI credit requirement below the £300 million level if possible.
27. A number of iterations of the financial model have already taken place to refine it, both in terms of cost input and affordability modelling. Further work is ongoing but our advisers believe that the criteria set out for making the bid attractive to DfT can be met. The up to date position on this will be provided at the meeting.
28. A simplified way of understanding how the Annual unitary charge is met is shown in the table below. The Annual Unitary charge is the payment made to the contractor/provider each year by monthly instalments.

Annual Unitary Charge = Correct budgets of £9.077m
 + The revenue value of the PFI credits
 + Any affordability Gap which may develop

29. The current budgets for highway maintenance are under pressure and these are expected to reduce by say £1.5 million prior to the start of the PFI project

in April 2010. This is due to a downturn in the availability of CYC capital (£1 million) and the termination of Prudential borrowing (£0.5 million). This anticipated reduction in the current budget would have to be found by other means to provide budgets at 2006/07 levels from April 2010, as well as any requirement to fund an affordability gap.

Risks

30. The key risks have been identified as follows:-

Financial

- funding any affordability gap which may develop as the project progresses.
- maintaining current budgets at 2006/07 levels (plus inflation)
- the assumptions used in the model may change in relation to the cost of finance or the net present value
- the cost of procurement may change as the project develops.
- the potential cost associated with changes over the life of the contract that may be due to changes in inflation or employers requirements.

Reputational

- DfT require extensive commitment to a scheme if an EOI is submitted.
- Trade unions – meetings have been held with unions at which they have expressed considerable concern and opposition to this PFI proposal.
- Staff would be subject to change and possible transfer to the new provider resulting in poor staff morale.
- Media may have concerns about the PFI arrangements and the implications.

Time

- If the EOI is not successful then 4 months will have elapsed between September 2006 and January 2007, when the decision is published, resulting in delays to any alternative procurement option.

Proposal

31. The investigation of the PFI alternative for procurement of highway maintenance has been carried out within very short timescales. Progress has been good and an EOI can be submitted by 10 September 2006 if Members agree to do so. The submission would not necessarily commit the Council to proceeding to the next stage if circumstances changed and the project became unviable.

Corporate Objectives

- 32 The highway service procurement will be a key delivery agent for many of the corporate aims over a 25 year period. The EOI document emphasises the links between this PFI project and the Council's corporate objectives.

Corporate Aim 1: (Environment) Take Pride in the City, by improving quality and sustainability, creating a clean and safe environment.

Specific Objectives:

- 1.1 Increase resident satisfaction and pride with their local neighbourhoods.
- 1.2 Protect and enhance the built and green environment that makes York unique.
- 1.3 Make getting around York easier, more reliable and less damaging to the environment.

Corporate Aim 3: (Economy) Strengthen and diversify York's economy and improve employment opportunities for residents.

Not directly relevant to any of the specific objectives, but good quality highway infrastructure is vital to the local economy.

Corporate Aim 4: (Safer City) Create a safe City through transparent partnership working with other agencies and the local community.

Specific objective:

- 4.7 Make York's roads safer for all types of user.

Corporate Aim 8: (Corporate Health) Transform City of York Council into an excellent customer-focused "can-do" authority.

Specific Objective:

- 8.9 Manage the Council's property, IT and other assets on behalf of York residents.

Human Resources (HR) Implications

- 33 The communication strategy, agreed by the Project Board, is being implemented with staff and unions being informed about the scale of this PFI project and its potential implications. The next milestone in this process is the submission, or otherwise, of the EOI and this will be communicated as soon as possible, in a coordinated manner to all staff potentially affected.
- 34 At a meeting with union representatives, where the possibility of a PFI project was raised, there was opposition to the principle of PFI and it is anticipated that this level of concern from unions and staff will be an ongoing issue. The numbers of staff potentially transferred by this proposal are about 60 and

include external staff from Amey (Street Lighting). All those staff would be protected under the TUPE regulations.

Equalities Implications

35. There are no equalities implications.

Legal Implications

36. There are no direct legal implications arising from this report. Legal advisers will be required if the PFI procurement route is pursued and this is also the case, but to a lesser extent, if an alternative procurement route is chosen.

Crime and Disorder Implications

37. There are no crime and disorder implications.

Information Technology (IT) Implications

38. There are no information technology implications.

Property

39. There are no property implications.

Other

40. There are no other implications.

Risk Management

41. The agreement by Members to the setting up of reporting procedures to enable the procurement of a complex and inter-related grouping of services to go ahead in a structured manner will provide considerable assistance in managing risk.
42. In compliance with the Councils risk management strategy the main risks that have been identified in this report are those which could lead to the inability to meet business objectives (Strategic) and to deliver services (operational), leading to financial loss (Financial), non-compliance with legislation (Legal and Regulatory), damage to the Council's image and reputation and failure to meet stakeholders expectations (Governance).
43. Measured in terms of impact and likelihood, the risk score for all risks has been assessed at less than 16. This means that at this point the risks need only to be monitored.

Recommendations

- 44 Members note that the outcome of the extensive investigation into a PFI option to provide highway maintenance services in the future.

Reason: To comply with the approval given in the Executive Report of the 2 May 2006.

- 45 To approve the submission of a PFI Expression of Interest for Pathfinder Project the DfT for highway maintenance management and works with Traffic Management Infrastructure works subject to acceptable financial proposals being provided at the meeting.

Reason: To take advantage of the opportunity to obtain additional funding and a service provider for highway maintenance and traffic management service.

Contact Details

Author:
Damon Copperthwaite
Acting Assistant Director City Strategy

Tel No. 01904 551448

Paul Thackray
 Head of Highway Infrastructure
 City Strategy
 Tel No. 01904 551537

Chief Officer Responsible for the report:
Bill Woolley
Director of City Strategy

Report Approved Date 1 September 2006

Damon Copperthwaite
Acting Assistant Director City Strategy

Report Approved Date 1 September 2006

Specialist Implications Officer(s) List information for all
 Implication - Financial
 Name: Simon Wiles
 Title: Director of Resources
 Tel No. 01904 551100

Wards Affected: No wards specifically affected

All

For further information please contact the author of the report

Background Papers:

Highway Services – report to the Executive on 2 May 2006
 Highway Services – report to the Executive on 11 July 2006

L:\DOCUMENT\WORDDOC\COMM\highway services progress report - steering board 05 September 06.doc

URGENCY COMMITTEE - 5 SEPTEMBER 2006

EXPRESSION OF INTEREST

HEADLINE FIGURES FROM FINANCIAL MODEL

- Unitary Charge = £20.5m first year → £33.6m in 1st five years
- PFI credits = £305m
£597m of cash = £23.9m/year
- Contract Value = £1b
- Sinking Fund Surplus over 6 years (first year) = £10m + £3.4m = £13.4m
 - ↑ budgets
 - ↑ credits
- Budget = Works £9.1m
Insurance £0.4m
Advertise £0.1m
Additional £0.45m
Contribution
£10.05 / year

This page is intentionally left blank

Overview of Approach to Benchmarking Costs

Background

Benchmarking of Neighbourhood Services (NS) costs is required to provide the Highways Maintenance Scrutiny Committee with information. It is also required to assist in examining the proposals to continue the further provision of these services via NS using a service level agreement (subject to a decision by Members).

Obtaining reliable cost comparisons is known to be difficult and this overview report demonstrates the lengths that officers have gone to, to try to obtain this information.

Comparison of costs using the 2005 procurement

As part of the procurement approach, recommended by the Best Value Review, NS took part in an exercise to benchmark their costs in July 2005. The exercise produced indicative costs from 5 external short listed organisations, as well as NS. A total of 24 items were priced and the comparison shows that when all the relevant factors are taken into consideration, NS was competitive and there was no financial advantage in moving from NS to a different provider for these particular services. More information is provided at **(1)**.

Examination of performance indicators available from the National Highways Benchmarking Club (NHMBC)

This benchmarking club has 38 members and includes local authorities as well as a range contracting organisations working for local authorities. A wide range of performance indicator information exists but it is focussed on satisfaction with quality and predictability of price rather than on maintaining a database of typical costs for individual rates.

Discussions with the benchmarking club representatives took place to try to determine if their data could be used for our specific benchmarking purposes but with no success. Club members use the information to build up an ongoing profile of their performance against others in the club and as such it does help to indicate when performance against others is not positive. The club does not believe that costs can be reliably compared and therefore doesn't see the benefit of trying to do so when contract arrangements vary so much these days. Partnership contracts and open book accounting no longer result in priced bills of quantities to the same extent as in the past. There are also wide geographical variations as well as the uncertainties in the way overheads have been included etc.

Whilst membership of the NHMBC may be something to consider it will not result in direct cost comparisons and could not be used in this benchmarking exercise.

Benchmarking survey with a number of local authorities in the Yorkshire and the Humber region

A list of 23 items for benchmarking was jointly agreed between City Strategy (CS) and NS and this was circulated to nine local authorities that we have regular contact with via highway asset management in the Yorkshire and Humber region.

Two authorities showed an interest in benchmarking with us but in the end, despite repeat requests for information, nothing was forthcoming. It was unfortunate that within a short space of time of sending out the request, the late June and early July flooding events affected many parts of the region and it is likely that staff had more important things to deal with than our request for information. Evidence from a similar exercise that NS attempted a little while ago, in a different subject area, resulted in a similar lack of response.

The end result is that despite attempts we were not able to benchmark locally using this approach.

Benchmarking using Accord

Accord is a contracting organisation supplying a wide range of services to central and local government. Accord was approached, through contacts at the NHMBC, to carry out a simple low cost exercise to benchmark NS in terms of typical outputs that should be expected for each of the items of work.

These outputs produce unit rates and when these were compared against those in current use with NS, the comparison showed that the rates in use are lower than those derived from the output quantities in most cases. In other words NS rates appear to be competitive in terms of their efficiencies as a result of this benchmarking exercise.

Accord has also supplied some indicative unit costs for our assistance but did this as a separate exercise to the report they produced. Accord was keen to stress that these costs should be used carefully for comparison purposes, as they may not be representative of the situation in York. Further information on this benchmarking exercise is included in (2) but the exercise showed that the rates used by NS are close to those supplied, and generally are slightly less expensive; confirming the view from the 'output' comparison, that the NS rates are competitive.

Benchmarking with the two local authorities adjacent to City of York Council

One of the variables that can affect benchmarking of costs is the peculiarities of any given locality. To try to overcome this factor a more personal approach was made to the two local authorities on our boundary, namely, North Yorkshire County Council (NYCC) and East Riding of Yorkshire Council (ERYC). Representatives from both authorities agreed to meet to discuss benchmarking. These meetings have taken place the discussions indicated that costs were similar, although differences in the item coverage for the rates being compared complicated matters. Both authorities agreed to carry out further benchmarking.

In the case of NYCC, the representative agreed to price up a footway resurfacing scheme to enable a sample of the small scale R&R programme to be

benchmarked for costs. In the case of ERYC the representative agreed to look further at benchmarking the routine maintenance rates. It is unlikely that the outcome of this further work will be available for the meeting but a verbal report will be provided. More information on the benchmarking with NYCC and ERYC is included in (3).

Outcome of the various benchmarking exercises

Benchmarking is difficult to carry out but the work undertaken does demonstrate that costs charged by NS are competitive when compared to both external contracting organisations and other local authority in-house suppliers. There is also evidence that the efficiencies being achieved are competitive.

(1) Comparison of rates supplied by Neighbourhood Services as part of the procurement exercise in 2005

The procurement was split into two parts, with the works traditionally undertaken by Neighbourhood Services (NS) included in Part B of the contract. Part A included works not traditionally carried out by NS, mainly street lighting, carriageway R&R schemes, surface dressing, footway slurry sealing etc.

The costing exercise in the tender was essentially to obtain indicative costs, as the contract was intended to be outcome based, using open book accounting with a financial incentive system to share 'pain' and 'gain'.

There were five external organisations in this tender process and they were all interested in obtaining Part A and Part B works. The indicative costs were based on the fact they would be awarded work in one of the following ways:

- Part A only
- Part A + B

When the external organisations provided indicative costs for Part B it is certain that some of the overheads would already have been covered in Part A and this could therefore appear to make NS indicative costs look more expensive (as NS was providing costs as a means to benchmark its services but without the facility to offset some overheads into Part A works).

The results of this exercise are as follows:

Comparison of the rates submitted by NS, to those rates in use at the time in connection with the ongoing term maintenance contract, showed a very close similarity. As a result of this, the exercise produces an indication of the value for money of costs at that time when compared to the rates submitted by external organisations.

Costs were obtained for a sample of 24 well used items. This information allowed costs to be estimated for a significant proportion of the services in part B of the contract.

NS was positioned 4th out of 6 and their costs were the closest of any organisation to the average figure, even when the least and most expensive were removed from the exercise. NS was 4.0% more expensive than the average cost.

This showed that NS were in the same price range as a sample of 5 good quality external organisations and were in fact less expensive than 2 of them.

Other factors

Had the exercise been taken further then it would have been necessary to introduce other factors into the financial assessment to obtain the greatest understanding of the implications of potential outsourcing of the civil engineering section of NS. This assessment would have considered loss of profit to the council, under recovery of central and departmental overheads, costs associated with TUPE and pensions as well as the impact on other services such as the vehicle fleet maintenance contract, Street Scene and Street Environment etc.

Whilst this exercise was never brought to a detailed conclusion, it was clear from the work undertaken that there was little to be gained, financially, from alterations to the present arrangements of the works in Part B of the contract. The main savings were in Part A and this was later confirmed again through the savings obtained in the following year (2006) with the R&R surfacing contract being awarded to Tarmac on a much improved financial basis from the Council's point of view.

(2) Benchmarking of Neighbourhood Services costs by Accord

Background to Accord

Accord provides an extensive range of highways and structures maintenance and improvement services, working for a number of local authorities, Transport for London and the Highways Agency.

Highways services represents a core area of business for Accord and it is one the top suppliers of term maintenance services to county councils and the Highways Agency. The Accord service offering has been developed with the aim of providing single-point responsibility for a wide range of activities.

Service offering includes:

- Carriageway and footway surfacing and construction
- Network management
- 24 hour incident support
- Footway maintenance and construction

- Maintenance and construction of bridges and structures
- Surface dressing
- Road marking
- Safety fencing
- Traffic signs
- Drainage works
- Gully emptying
- Grass cutting
- Weed control
- Grounds maintenance
- Winter maintenance e.g. snow clearance and precautionary salting
- Fleet management and maintenance
- Co-ordinated passenger transportation
- Asset management

Current clients include:

- Anglesey County Council
- Caerphilly County Borough Council
- Cardiff Council
- Crawley Borough Council
- Highways Agency
- London Borough of Camden
- London Borough of Harrow
- London Borough of Hillingdon
- Newport City Council
- Oxfordshire County Council
- Shropshire County Council
- Southampton University
- Staffordshire County Council
- Telford & Wrekin Council
- Transport for London
- Torfaen County Borough Council
- Vale of Glamorgan Council
- Warrington Borough Council
- West Sussex County Council

Benchmarking approach

The Divisional Director involved with this project arranged for the Accord estimating department to produce the typical outputs they would expect a competitive organisation to deliver, in terms of the quantities of labour, items of plant and all the different materials, for each of the 23 items supplied to them. This information can then be used to input costs and determine whether or not the rates are in line with those currently being used, and by implication in line with the output productivity that should be expected from a competitive organisation.

The information obtained from this exercise showed that overall the existing NS costs are lower than those produced using the typical outputs, provided by Accord, for a competitive organisation. Using the 16 most comparable

rates this indicates that NS average costs are 10.4% lower than those calculated from the outputs. This should be taken as an indication that NS costs are competitive, rather than the extent to which they are competitive due to the assumptions in the calculations.

Accord was keen to point out that any approach to benchmarking costs needs to carry a significant warning that comparisons can be misleading. Contractors build up their costs in different ways, taking into consideration different levels of overhead provisions. Other factors play an important part such as the availability of skilled labour, the local cost of labour, plant and materials and the life of the project over which set-up costs can be spread.

With this in mind Accord did not feel it appropriate to provide typical costs for the 23 items in their report but they did agree to verbally provide this information, based on 'normal' overheads, providing the 'health warning' about cost variations was applied to it.

This showed that a small number of the rate comparisons were clearly not based on the same things and not comparable. An overall comparison of 20 costs indicates that NS existing costs are very similar to the typical costs provided by Accord being 4.7% less expensive. However, based on the basket of 16 rates that are suitable for comparison of Outputs, NS is 1.3% more expensive than Accord's typical costs.

(3) Benchmarking with the two local authorities adjacent to City of York Council

Representatives from NYCC and ERYC agreed to meet with CYC officers to discuss benchmarking and their approach to service delivery.

Comparison with NYCC

NYCC outsourced its consultancy and its Direct Service Organisation some years ago and has term maintenance contract arrangements for these services. It needs to operate a relatively large client base, partly because of the contract arrangements in place and partly because of the geographical nature of North Yorkshire.

Comparison of basic maintenance costs proved to be difficult because of the way these were built up and the uncertainties that like-for-like comparisons were being made.

Bearing in mind that the Accord exercise had produced comparisons for a reasonable number of typical basic maintenance items, it was agreed that a more sensible approach to benchmarking would be to price up a small footway R&R scheme to see how costs compared on specific scheme. A scheme in this years programme has been sent for indicative pricing and the

results are awaited. If an update is available it will be provided verbally at the meeting.

Comparison with ERYC

ERYC do not have a 'client', 'contractor' split and as a result officers adopt a 'twin-hatted' approach. They still have an in-house supply capability for routine highway maintenance but it is fairly limited and is enhanced as necessary from a framework contract for labour. ERYC favour the framework contract arrangement and also use it to obtain contractors for their R&R schemes.

Routine maintenance tends to be provided on a dayworks basis, as the works are small scale and usually undertaken in less than a two day period. The labour rate is a critical element in dayworks and a comparison of CYC and ERYC labour rates revealed that they were almost identical.

ERYC agreed to carry out some further works on benchmarking of routine maintenance items but the results are not expected prior to the meeting.

This page is intentionally left blank

Table of Events in relation to Highways Maintenance Procurement and the PFI Process

Date	Item
October 2001	<p><i>Report to the Executive – Best Value Review of Highway Maintenance</i></p> <p>The Best Value Review was concluded in July 2001 A summary of the Continuous Service Improvement Plan was included. Annex B gave the principal findings and recommendations - based on the 11 Improvement Objectives identified in the BVR. Also sets out 21 improvement activities from 2001/02 to 2005/06.</p> <p>Outcome: Members approved</p> <ul style="list-style-type: none"> ▪ Improvement objectives ▪ Implementation of the CSIP ▪ Possible cost savings ▪ Formation of a Highway Improvement Team to look at new ways of working and prepare the new contract and tender, by April 2003 ▪ Interim joint working arrangements between DEDS/CSO ▪ Research into new procurement and contract arrangements ▪ Provide regular updates to Members on progress
February 2002	<p>Update on Progress on 4 out of 11 Objectives. Action Plan:</p> <ul style="list-style-type: none"> ▪ 1 action abandoned – no funding ▪ 1 action not applicable until 2006 ▪ Progress on 7 actions ▪ No progress on 11 actions <p>Note: There was no permanent Section Head in Highway Infrastructure from this time until June 2003, when it became Highways and Street Operations. Progress was limited as a result.</p>
October 2002	<p>Audit Commission report on the Best Value Review. Service rated as fair with uncertain prospects for improvement. Actions recommended for improvement</p>
June 2003	<p><i>Report to EMAP Planning & Transport - Update on CSIP</i></p> <p>The report discussed Audit Commission report and CSIP to date:</p> <ul style="list-style-type: none"> ▪ 1 action abandoned – no funding ▪ 1 action not applicable until 2006

	<ul style="list-style-type: none"> ▪ Progress on 18 actions ▪ No progress on 1 action but this is discussed in the report <p>Outcome: Members agreed to revise the CSIP, in line with requirements of performance management and a standard monitoring template. CSIP revised based on 5 key initiatives</p> <ol style="list-style-type: none"> 1. Understanding customer views 2. Understanding the asset 3. Introduce a Quality Assurance System 4. Introduce a Highway Maintenance Plan 5. Analysis and procurement of revised service arrangements
July 2003	<p><i>Report to the Executive – Procurement of Services via a ‘Thin Client’</i></p> <p>Outcome: Approval of the Thin Client approach subject to further reporting Approval to the Thin Client approach in joint delivery of cleansing, grounds maintenance and street scene services, subject to certain caveats.</p>
December 2003	<p>Report to EMAP Planning & Transport - Update on CSIP Progress reported to Members since last update in June 2003</p> <p>Outcome: Members agreed to note the report</p>
March 2004	<p><i>Report to the Executive – Procurement of Highway Maintenance Services.</i></p> <p>Outcome:</p> <ul style="list-style-type: none"> ▪ Approval of temporary extension of contract arrangements for the supply of highway maintenance services ▪ Approval that the procurement of highway maintenance services should proceed on the basis of a single tender but in two parts
September 2004	<p><i>Report to EMAP Planning & Transport - Update on CSIP.</i></p> <p>This report provided an update on progress on the key initiatives but focussed mainly on customer satisfaction (the first of the key initiatives).</p> <p>Outcome:</p> <ul style="list-style-type: none"> ▪ Funding to be more evenly distributed between c/way and f/way schemes ▪ Subject to various considerations the use of low cost maintenance techniques should be increased ▪ Consult on customer satisfaction with gully cleaning and surface dressing in certain urban locations (if the latter is approved in the programme of works)

	<p>Note - This was the last of the routine CSIP update reports as resources were diverted onto the procurement exercise, followed later, by the PFI Expression of Interest</p>
November 2004	<p><i>Report to the Executive – Procurement of Highway Maintenance Services.</i></p> <p>This report provided details of the procurement arrangements.</p> <p>Outcome:</p> <ul style="list-style-type: none"> ▪ The Executive endorsed the report and the progress made to date as the way in which it wishes to proceed with the Procurement of Highway Maintenance Services. ▪ The split of functions between a Thin Client and the Service Provider was approved.
March 2005	<p><i>Report to the Executive –Tendering Strategy</i></p> <p>Outcome:</p> <ul style="list-style-type: none"> ▪ Approval was given to the procurement of various traffic management maintenance contracts for CCTV, traffic signals, VMS signs etc on a separate basis.
July 2005	<p><i>Report to the Executive – Procurement of Highway Maintenance Services – Evaluation Strategy</i></p> <p>Outcome:</p> <ul style="list-style-type: none"> ▪ The selection of the preferred contractor based on the 'most economically advantageous tender' (MEAT) proposal for the City of York Council, on a 60% quality, cultural criteria / 40% price and technical capacity basis was approved. ▪ The use of the 'restricted' tender procedure in selecting the preferred contractor was noted.
October 2005	<p><i>Report to the Executive – Procurement of Highway Maintenance Services – Post Evaluation Clarification.</i></p> <p>The Executive approved delegation of authority to hold post-evaluation clarification discussions</p>
November 2005	<p><i>Report to the Executive – Procurement of Highways Maintenance Services – Preferred and Reserve Bidder</i></p> <p>Outcome:</p> <ul style="list-style-type: none"> ▪ Subject to the outcome of the market testing exercise on Commercial Services, the Executive agreed to nominate Alfred McAlpine Government Services as preferred bidder for Part A+B and Part A, with Amey Infrastructure Services as reserve bidder for Part A+B and Part A.

September 2006	<p>Reports to EMAP City Strategy – Transport Asset Management Plan Draft Plan outlined with request to endorse its publication Outcome: The report was approved</p>
May 2006	<p><i>Report to the Executive – Joint report of the Director of City Strategy and the Director of Resources – Highway Services Contract Report.</i> Outcome:</p> <ul style="list-style-type: none"> ▪ Approval to the short term arrangements to extend contracts. Approval to the maintenance of the current arrangements with Commercial Services (reactive and routine maintenance including small footway improvement schemes) for 12 months to maintain safety on the highway network. ▪ Approval to medium term arrangements to tender the carriageway and large footway schemes, integrated transport schemes and Ward Committee schemes for a period of 18 months starting from September 2006 extendable annually. The design and management function to remain in-house. ▪ The decision made by the corporate management team to suspend the current procurement process was approved, to allow investigation of the new emerging options to address the backlog of highway maintenance. ▪ The in-house procurement team will investigate long term options of a PFI contract and, an extended scope contract, and report back to Members with the outcome. ▪ The proposed management arrangements of a Project Board and a Steering Group were agreed. ▪ The pursuit of a further option, to develop existing arrangements, would go ahead in the event that the other two options are unsuccessful.
July 2006	<p><i>Report to the Executive – Highway Services (re PFI)</i> Outcome:</p> <ul style="list-style-type: none"> ▪ The details for the reporting and management structures were approved. ▪ The appointments to the Steering Group were approved ▪ Delegated authority was given to the Project Board and the Steering Group to submit an EOI, should this be considered appropriate, as there is insufficient time to bring a report to the Executive.

September 2006	<p>Report to the Urgency Committee – Highways Services – PFI Option.</p> <p>Outcome:</p> <p>Members noted that the outcome of the extensive investigation into a PFI option to provide highway maintenance services in the future.</p> <p>Approval was given to the submission of a PFI Expression of Interest for a Pathfinder Project to the DfT for highway maintenance management and works, with traffic management infrastructure works.</p>
September 2006	PFI Expression of Interest submitted to DfT
September 2006	<p>OIC Director – Procurement of Highway Surfaces (R&R) Works</p> <p>Outcome:</p> <p>Approval given to the lowest tender submitted by Tarmac Ltd for the term contract.</p>
April 2007	<p>OIC Director – Award of Street Lighting Contract</p> <p>Outcome:</p> <p>Approval given to the lowest tender submitted by Amey Infrastructure Services for the term contract.</p>

This page is intentionally left blank

Outcomes of Best Value Improvement Objectives and Actions

Improvement Action	Improvement Outcome	Extent to which the Outcome was delivered
Develop a highways maintenance strategy	<p>Inspection & Repair manual introduced in 2000 and subsequently revised with the new code of practice in 2005. Transport Asset Management Plan introduced in 2005.</p> <p>'June' surveys further developed year on year.</p> <p>PI targets set, but this presents difficulties when there are pressures on budgets and changes in the reporting of PIs.</p> <p>Sustainable street lighting strategy due to be introduced in October 2007.</p>	The strategic approach has been developed, as required, but has changed over the years to meet changing circumstances.
Set up Highway Maintenance Improvement Team (HMIT)	<p>Team set up and it initially established 'quick wins'.</p> <p>This Team evolved over time and with meetings of relevant staff now taking place on a monthly basis.</p> <p>The Team is supported with weekly meetings that concentrate on ensuring:</p> <ul style="list-style-type: none"> • smooth flow of work • design, manage and build of small R&R schemes (staff seconded from Engineering Consultancy) • area working <p>Gully cleaning has improved with regular organised road closures incorporating other maintenance works. Recycling of aggregate has improved considerably.</p> <p>NS are Quality Assured (registration in 2005) plus Striving for Excellence 2005. Schemes are coordinated properly – recent examples being:</p> <ul style="list-style-type: none"> • Strensall roundabout • Crockey Hill junction 	The Team was set up as required but has evolved over time.
Appoint Highway Maintenance	No funding was available when the growth bid was submitted. No appointment made.	This action point was not delivered

Improvement Team Project Manager		
Introduce quality assurance manager	<p>Quality Assurance Manager, for Highways and Street Operations, appointed in the DEDS reorganisation in 2003. The post holder had to concentrate initially on street scene issues, on refuse and cleansing. Subsequently, the post holder also had to be used to cover for the absence of the Highways and Street Operations back office support team leader. In 2005 the post transferred to NS with the transfer of client operations for street cleansing, refuse collection and public convenience provision. The post was then taken as a saving.</p> <p>Due to the pressures outlined with the role of the Quality Assurance Manager, it was never possible to develop the QA systems as originally intended.</p> <p>Work was carried out to process map activities, to improve QA with NS, to improve QA as part of service procurement and to assist in the 'easy' project.</p>	<p>Whilst a Quality Assurance Manager was introduced, as required, this happened late and as a result of an internal reorganisation. The QA Manager was only able to carry out some of the duties anticipated, due to other pressures and the post was deleted as a saving in 2005. The action was only delivered in part.</p>
Improve quality of the finished product	<p>Re Basic highway maintenance works with NS: A quality bonus scheme was introduced. Feedback cards, for customers, introduced. The works ordering system was reviewed and improved to create a smooth flow of work. Quality checks carried out. Inspections are accurately recorded. We have removed duplicate inspections and the system has been re-engineered to enable single self-monitoring.</p> <p>Re Street lighting contract with Amey: Works ordering has been improved. Quality is checked. weekly and monthly contract meetings improve quality.</p> <p>Re Surfacing contract with Tarmac:</p>	<p>The quality has improved as a result of a number of initiatives and the outcome has been delivered.</p>

	<p>Early Contractor involvement in each project achieves improved Method Statements and benefit is gained from practical ways of working.</p> <p>Joint meeting to agree defects correction this minimises staff costs and improves speed of any corrections</p> <p>:</p>	
Develop local KPIs and set targets	Local KPIs introduced, as set out in the City Strategy Performance Record	Completed
Undertake market research and analysis of new procurement arrangements	In 2003 considerable work was done with other Councils and with interested contractors to identify the various procurement arrangements that may have been appropriate for CYC	Action completed and outcome reported to the Executive
Review select list	All contractors must now be CHAS registered and on the Construction-line, Government backed select list. NS were reviewed and included on the select list	Action completed
Introduce Highway Management System	A comprehensive highway management system, Exor, has been introduced and is continually being enhanced.	Action completed
Review current contractual arrangements, review options available and plan introduction of new contractual arrangements	This was done from 2003 onwards re contract scope, type, term and the proposed introduction of new contractual arrangements.	Completed with a number of reports brought to the Executive for decision.
Introduce new contractual arrangements	The proposed contract was put out to tender May 2005. A preferred bidder was appointed and pre –contract discussions continued up the Spring of 2006	New contractual arrangements failed to be delivered, but the process was substantially completed.
Improve communication	<p>Re Basic Highway Maintenance works with NS:</p> <p>There are weekly and monthly inter-departmental meetings to monitor and improve service delivery.</p> <p>Re Street Lighting with Amey:</p> <p>There are weekly and monthly meetings</p>	Action completed

	<p>to improve workflow and increase efficiencies.</p> <p>Re Surfacing with Tarmac: There are meetings either weekly or every other week, depending on the volume of work being undertaken, to monitor work and agree accounts.</p>	
Undertake structured consultation and customer liaison	<p>Work done at different times to undertake consultation on specific issues, such as drainage. Satisfaction PIs have improved. Information taken to Members eg CSIP update with particular focus on customer satisfaction (September 2004).</p>	<p>More could always have been done but the action has been substantially completed.</p>
Introduce use of monthly trading accounts	<p>Trading accounts in place for NS and Engineering Consultancy. Monthly budget monitoring in CS.</p>	<p>Action completed. A trading account for the Highway Infrastructure Section is not appropriate as income generation forms only a small part of the work..</p>
Undertake benchmarking	<p>Some work was done initially at the time of the BVR. There is no meaningful information readily available as no two contracts are alike – information is also commercially sensitive. Bench marking of NS took place as part of the review of contractual arrangements in 2005. Further benchmarking has just been completed with a term maintenance contractor, Accord and is in progress with NYCC and ERYC. The operation of Highway Infrastructure and Engineering Consultancy was also reviewed, from 2003 onwards, as part of the proposed procurement of services.</p>	<p>Benchmarking has been undertaken on a number of occasions in different ways. It is not easy to obtain meaningful information but the action has been substantially completed.</p>
Review remit of highway maintenance service	<p>Reviewed regularly as a result of:</p> <ul style="list-style-type: none"> ▪ Re-scoping (involving setting up the Street Environment Service) ▪ Restructuring (in 2003) ▪ Proposals for procurement involving revised for service delivery 	<p>This has been the subject of various Executive reports and the action has been completed.</p>

	<ul style="list-style-type: none"> ▪ PFI ▪ Scrutiny 	
Review training and education needs	<p>Retention package introduced. Appraisals/ PDRs in place. Training programmes:</p> <ul style="list-style-type: none"> ▪ HNC/HND ▪ IOSSH ▪ CDM ▪ First Aid ▪ Technical conferences ▪ Workforce training (tools) 	A lot of training and education is carried out and the action has been completed.
Review success of HMIT and link outcomes with review of contractual arrangements	<p>The HMIT was successful to start with but once the initial outcomes had been delivered it became less effective with limited outcomes. The HMIT led into the first procurement. The work of the HMIT is embodied in the efficiencies of the new contracts:</p> <ul style="list-style-type: none"> ▪ Manage and build arrangements with NS ▪ 'Early Contractor Involvement' in the surfacing contract with Tarmac ▪ The partnership approach to the street lighting contract with Amey (Partnership Seminar planned for Nov. 07) 	<p>The actions were completed. The HMIT had some initial success and this was developed further into the reviews of contract arrangements.</p>
Sustain and expand condition survey	<p>A number of condition surveys are regularly undertaken each year and the extent and condition of the various assets are recorded in Exor. Obtaining information is relatively expensive and is limited by the resources available. The TAMP has provided a valuable overview but needs to be developed further. A very accurate street lighting inventory has been produced leading to considerable savings on energy. More work is needed on bridges, lower category footways and drainage systems (particularly if the PFI option is to be progressed).</p>	<p>Considerable work has been done, and CYC was at the forefront in this field a few years ago. Unfortunately a lack of resources to sustain this position has meant that this is no longer the case.</p>
Pre-Planning of next BVR	<p>The approach to BV changed in the years following the highway maintenance BVR and the action is no longer required.</p>	<p>Not completed but only because this action is no longer required as initially envisaged.</p>

This page is intentionally left blank