

Report of the Director of City Strategy

HIGHWAYS SERVICES

Summary

1. To advise on progress to date with highway services procurement, to seek approval to the proposals for the reporting and management structure for this procurement and, if required, to provide delegated authority to submit an expression of interest (EOI) for a highway management Private Finance Initiative (PFI) bid, in consultation with the Executive Member.

Background

2. The previous procurement process reached the stage of Members appointing a preferred provider. The procurement was discontinued in February 2006 to enable other options to be considered.
3. 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.

Progress

4. The Executive report on 2 May 2006 informed Members about what needed to be done in the short and medium term and to date the following progress has been made: -

Short Term

5.
 - The term maintenance contract with Amey Infrastructure Services covering street lighting has been extended and discussions are taking place about contract issues to cover the 12-month period, including the introduction of service improvements and /or savings.
 - The term maintenance contract with Neighbourhood Services covering routine highway maintenance and footway resurfacing has been extended for the 12-month period. Improvement planning meetings have taken place resulting in the identification of 7 potential areas for improvement. Working groups are currently examining these areas in more detail with the intention of introducing improvements from the end of June 2006 onwards.
 - Colas has agreed to undertake the surface-dressing programme this summer at a discounted price.

Medium Term

6.
 - Notices have been placed seeking procurement of works for resurfacing and reconstruction, slurry sealing and surface dressing. The contract period is two years but is extendable.
 - It is intended to have contracts in place by September 2006 and whilst this will produce a reduced time frame for construction in 2006/07, it is believed that completion of the programme is achievable. Design work is taking place in readiness for contract award.
7. Legal advice has been obtained from Beachcroft Wandsborough and this confirms that the actions being taken in the long term to actively pursue the procurement of highway services will significantly reduce the risk of challenge to the short and medium term measures.
8. Progress on the long term Options B and C is concurrently taking place with the key points set out as follows: -

Long Term - Option B (PFI)

9. To fully engage in the PFI process it is essential to obtain the expert assistance of organisations that have the required skills to assist the Council.

Financial Advisors

10. Tenders for financial advisors have been obtained and evaluated on the basis of a 50/50 price quality split. Clarification of certain issues with tenderers, but with particular emphasis on the Deloitte tender, has shown that Deloitte's are the preferred financial advisor. The Procurement Team within Resources has been made aware of the situation, with the supporting evidence, and has raised no objection to the procurement.

Expression of Interest (EOI) submission to DfT

11. The first task for the financial advisor will be a report on the feasibility of the PFI route, scheduled for 7 July 2006 at the earliest. This report looks at the feasibility of the PFI route for the Council with particular emphasis on costs and affordability. It will enable a decision to be taken to commit Council funding and resources on the basis that an EOI will stand a reasonable chance of being successful. Should DfT approve the EOI then this will lead to the submission of the Outline Business Case (OBC).
12. The Deloitte report cannot be included in this report but a rapid decision needs to be made about proceeding with an EOI as a considerable amount of work has to be carried out in July and August to enable a submission, if necessary, by early September. To enable this decision to be made it is proposed that delegated authority be given to the Project Board and the Steering Group.

Technical Advisors

13. As part of the term contract with Halcrow the Council is able to obtain the necessary technical advice in connection with the use of asset information and the development of appropriate outcome specifications and costs.

Links with DfT and 4Ps

14. The Council has engaged with the 4Ps organisation to assist with developing and steering the project in a way that will make it as attractive as possible to DfT. The involvement of 4Ps is free of charge in most cases and it can assist in facilitating contacts with relevant DfT staff and can advise on the scope of the project.

Workshops

15. A number of workshops are planned involving all the various parties working together to develop the most appropriate EOI submission to DfT.

Scope

16. It is recommended that the initial scope of a Highway Management EOI will be based on the three models listed:-

Model 1

- A wide range of Highway Maintenance Works, including street lighting, grounds maintenance and maintenance of car parks and Park & Ride sites.
- Design services.
- Management services (excluding statutory and strategic functions).
- Integrated Transport schemes.
- Ward Committee schemes

Model 2

This consists of Model 1 plus:

- Traffic Management functions
- Street Cleansing

Model 3

This consists of Models 1 and 2 plus:

- Major transport infrastructure projects

The current cost associated with the provision of the services in the different Models is:-

£7.5 million per year for Model 1

£9.5 million per year for Model 2

£9.5 million per year for Model 3 plus the costs (unknown at this stage) for major projects

An essential element of a PFI project is the asset renewal and the costs involved with this. These costs consist of capital programmed investment, defined as 'capital' in years 1 to 5 and 'lifecycle' in years 6 to 25. Capital spend in the core investment period needs to be determined accurately but the backlog of works on surfaces, street lighting and structures is estimated to be £50million and this gives an indication of potential capital expenditure. Lifecycle costs are expected, at this early stage in the process, to be in the region of £10 million per year.

Subject to the outcome of workshop discussions the recommendations for the scope of the EOI may change.

Affordability

17. The initial feasibility report from Deloitte will indicate the potential cost to the Council of a PFI contract in terms of the cost of procurement and the affordability gap, although this can only be estimated fully when the scope of the

contract has been agreed. The report will give a broad indication of the likely costs associated with achieving a financial close on a contract.

Long Term - Option C (Extender Scope)

18. Both Deloitte and Halcrow will assist in the determination of the most appropriate alternative type of contract should it be decided that an EOI submission is not in the best interests of the Council or should an EOI submission fail to attract DfT interest. Should the alternative be some form of partnership arrangement then 4Ps may also continue to provide assistance although their priority is with PFI work.

Scope and Service Structure

19. Work undertaken to scope the PFI project will also be used to help determine the best scope for Option C. The effect of putting services into scope may have a knock-on effect with the continued delivery of other services and it will be important to understand these issues.

Type of Contract

20. Decisions are needed on the form of specification (output or input), the form of contract (partnering, framework, term etc) and the form of payment mechanism (schedule of rates, lump sum, target cost, open book etc).

Issues common to Option B or C

21. There are a number of key issues that are common to whichever procurement route is ultimately chosen.

Flexibility

22. The contract must have built in flexibility to enable the Council to take advantage of new initiatives over the length of a long-term arrangement.

Risk

23. In depth analysis is needed to ensure the risks are allocated to the organisation best able to manage the risk. A risk register will be developed but the appointed external will be required to assist with this.

Service Structure

24. The functions that will remain in-house need to be established in terms of risk and functional fit so that the size of the 'client' can be established and the impact on the organisation determined.

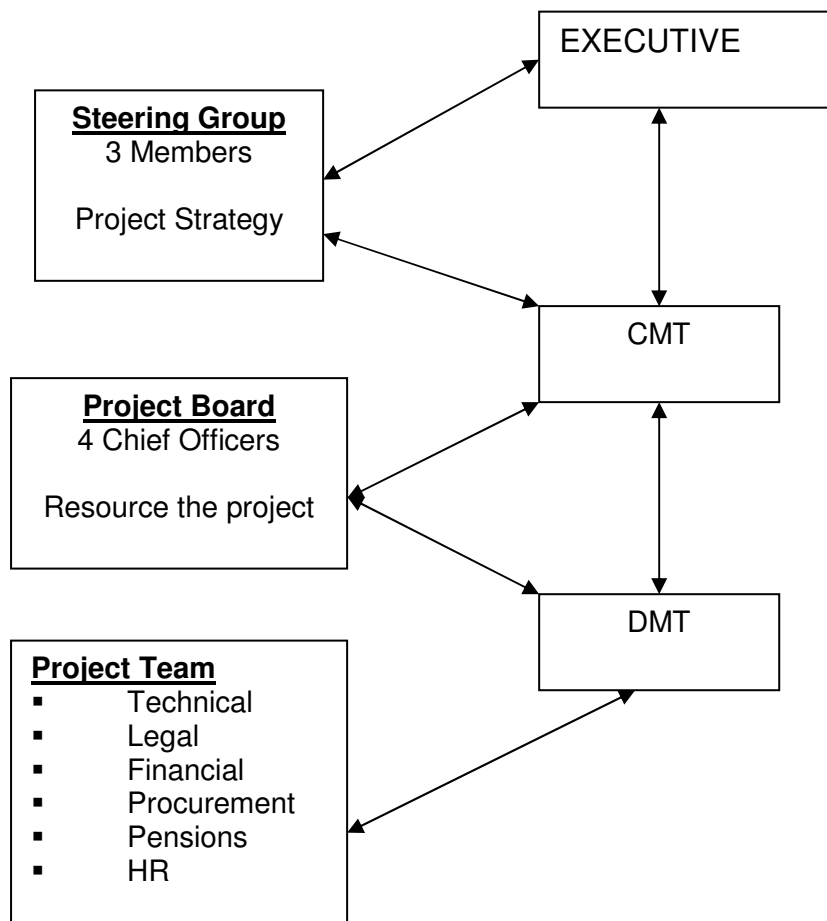
Procurement Process

25. The EU procurement process, which is best suited to the selected outcome, needs to be agreed i.e. restricted, competitive dialogue or negotiated process but for PFI it is most likely that the competitive dialogue process will be used.

Proposed Management Structure

26. Several of the difficulties encountered by the earlier procurement were the lack of engagement by those teams who were affected and by corporate groups. Resources for the project were limited and therefore restricted the procurement process. To overcome some of these difficulties a more rigorous project management structure and reporting structure is proposed and this will cover key issues such as resources, planning and decision-making.

The proposed process for reporting and decision making is shown diagrammatically below:



Steering Group

27. The proposal, subject to approval, is that the Steering Group consists of: -

- Leader of the Council
- Executive Member for City Strategy
- Shadow Executive Member for City Strategy

The Steering Group would meet on a quarterly basis.

The principle function of the Steering Group is to provide strategic steer to the project, receive reports and provide advice, prior to reports going to the Executive.

It is recommended that approval is given to the structure and that arrangements be made for the Steering Group to be created.

Project Board

28. The proposal is that the Project Board consists of 3 CMT members, an assistant director, plus HR input, as follows:

- Director of City Strategy
- Director of Resources
- Director of Neighbourhood Services
- Assistant Director, City Strategy
- Head of Human Resources

The Project Board would meet on a 6 to 8 weeks basis, depending on circumstances and developments.

Responsibilities will be to resource the project, to provide directional lead on specific issues and to monitor progress and make recommendations.

Project Team

29. The project team responsible for delivery of the project will provide the following skill sets:

- Technical: In-house but with external advisor when required
- Legal: In-house but with external advisor when required
- Financial: In-house but with external advisor when required
- Procurement: In-house and external advisor when required
- Pensions: In-house and external advisor when required
- Human Resources
- Risk Management

It is proposed that the Project Team Manager is the Head of Highway Infrastructure.

Progress meetings would be held every 4 to 6 weeks.

The project team will deliver and manage the project, including resource management, risk management and reporting. Two FTE's from within Highways Infrastructure will be allocated to the project.

Indicative Programmes Option B (PFI)

30.

Phase	Description	Outcome	Target Date
1.1	Procure Advisor(s)	Quotations submitted	05/05/2006
		Appointment	11/05/2006
1.2	Phase 1 Report	Feasibility of PFI route for York	23/06/2006
1.3	Strategic Assessment - Members. Confirm submission of EOI (report for information)	Scope Options Preliminary Estimates Value for Money Quant. Assessment Affordability	04/07/2006
2a.1	Instruction to proceed with EOI	Proceed pending approval of Members	11/07/2006
2a.2	Finalise EOI	Submission of EOI	10/09/2006
2a.3	DfT decision	Approved/ Rejected	December 2006
3.1	Instruction to proceed with OBC for PFI	Introduce internal project management arrangements Appoint procurement advisors	Jan 2007
3.2	Finalise OBC	Confirmation of PFI Credits	Depends on DfT programme April 2007
3.3	Invitation To Negotiate	Competitive dialogue	Sept 2007
3.4	Best and Final Offer (BAFO)	Affordability Clarification	Apr 2008
3.5	Commercial negotiations completed	Award contract Service mobilisation	August 2008
3.6	Service Commencement	25 year contract	June 2009

**Indicative Programme
Option C (assumes EOI for Option B is not pursued)**

31.

Phase	Description	Outcome	Target Date
2b.1	Outcomes Business Case for Alternative to PFI	Option C or D selected	14/07/2006
2b.2	Procurement	Introduce internal project management arrangement Appoint advisors	Aug 2006
2b.3	OJEU Notice	PQQ Select tenderers [8 weeks]	Nov 2006
2b.4	ITT	Issue Tenders	Jan 2007
2b.5	Award Contract	TUPE Internal management structures Internal reorganisation Commercial negotiations complete	Sept. 2007
2b.6	Contract Mobilisation	Premises / Depot People Plant & Equipment	Mar 2008
2b.7	Contract Start		Apr 2008

Corporate Objectives

32. The highway services procurement will be an essential part of the corporate aims:

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.

Financial Implications

33. Within Highway Infrastructure budgets, funding has been identified to cover the cost of the Project Manager until October 2006.
34. A sum of £30k has also been allocated to cover initial procurement costs, but no specific procurement budget exists.
35. Completion of procurement beyond the point of an OBC will require a new appointment of advisors. It will also involve staff and administrative costs, typically in the region of £130k per year and potentially more for PFI. The funding of the procurement needs to be considered in more detail in a future report as soon as the implications are clearer.

Human Resources (HR) Implications

36. In due course the procurement will have HR implications associated with TUPE and staff transfers. Consultation will take place on both an informal and formal basis with employees and their union representatives. Staff groups potentially affected have been informed of the work being undertaken in connection with the procurement of services and will be updated regularly on progress. Full time officials of the trade unions represented have been provided with a copy of this report, for their information.

Equalities Implications

37. There are no equalities implications.

Legal Implications

38. Legal advisors will continue to be required whichever option is chosen, but there are no legal implications arising from this report.

Crime and Disorder Implications

39. There are no crime and disorder implications.

Information Technology (IT) Implications

40. There are no information technology implications.

Property

41. There are no property implications.

Other

42. There are no other implications.

Risk Management

43. This report recommends 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. The recommendations are being put before Members to reduce the risk of some level of procurement failure. There is a significant risk attached to proceeding with this procurement, with its cross-directorate effects, if the reporting structure is not in place.
44. Should the recommendation be approved then 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 stakeholder's expectations (Governance).
45. 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 as they do not provide a real threat to the achievement of the objectives of the report.

Recommendations

46. Members are asked to consider that:
- The proposed reporting and management structures are approved.
 - The appointments to the Steering Group are approved.
 - Delegated authority be 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.

Reason :

To provide a mechanism for proper consideration of the procurement at various stages, to ensure the maximum opportunity for the most successful outcome.

Contact Details

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Chief Officer Responsible for the report:

Damon Copperthwaite
Acting Assistant Director
(City Development & Transport)

**Report
Approved**

Date

*29 June
2006*

Chief Officer : Bill Woolley
Director of City Strategy

**Report
Approved**

Date

Insert Date

Specialist Implications Officer(s)	<i>List information for all</i>
<i>Implication ie Financial</i>	<i>Implication ie Legal</i>
<i>Name</i>	<i>Name</i>
<i>Title</i>	<i>Title</i>
<i>Tel No.</i>	<i>Tel No.</i>

Wards Affected: *List wards or tick box to indicate all*

All

For further information please contact the author of the report

Background Papers:

Highways Services Contract Report – 2 May 2006.

Annexes

None.

29 June 2006

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