



**Decision Session - Cabinet Member for
Environmental Services**

21 March 2013

Report of the Assistant Director (Highways, Waste and Fleet)

Street Lighting Maintenance Procurement Report

Summary

1. The existing street lighting term maintenance contract expires on 31 March 2013. This report details the options available to procure a new contract and to gain approval to proceed with the preferred option.

Background

2. The reduced funding of local authorities by central government and the limited ability to raise council tax revenue has led this Council to investigate other forms of raising revenue. In response the Council is shifting to a commercial generating entrepreneurial business model.
3. The existing contract was tendered and won by Amey LG and commenced on 1 April 2007. The term of the contract is 3 years with an optional extension of a further 3 years. The contract has been extended and now expires on 31 March 2013.
4. The contract is based on the ICE Term Maintenance model. Within the contract there are services that are based on either a lump sum or specified works within a schedule of rates. Within the contract there are a number of parameters relating to average times to attend faults and the delivery of works. The contract operates night scouting of the city area at a frequency of once a month and provides a design service for schemes and projects.
5. Lighting apparatus in narrow streets and alleyways require specialist 'Skywinder' equipment to access them for maintenance and repair of faults. The current contract arrangement is that the equipment is used once a month or where there are 20 or more faults as the Skywinder is shared with other Amey contracts. The

option to bring the service in-house will alleviate this problem with access to the equipment being available as required thus reducing the time taken to repair faults.

6. The service is delivered by 9.5(fte) employees of Amey LG comprising of six operatives, 1.5 admin staff, supervising electrician and an operations manager. The client function is performed by a street lighting engineer employed by the Council. The Amey LG employees will TUPE to the new service provider whichever option is approved.
7. It is unlikely that the new operational arrangements will be in place by 1 April 2013. Consultation with the existing contractor is being undertaken to identify costs associated with an interim arrangement until 30 September 2013.
8. It has been established that the majority of councils have decided to stop their night scouting and rely wholly on the public to report fault through their public enquiry systems. The reporting will be enhanced within the Council by the Smarter York initiative that involves the public and members reporting issues through use of mobile devices. It is recommended to adopt this approach as the Council has a fully functional LAGAN system that is integrated into the back office processes and will generate efficiency savings.
9. It is envisaged that the new term maintenance arrangement will give the Council the opportunity to expand its business area providing both an installation and maintenance services to other public/private bodies and developers within the city. This would be more beneficial if the service was brought in-house as all profits from this enterprise will be received by the Council.

Consultation

10. Due to the nature of this report no consultation has been undertaken.

Options

11. There are 3 options available to the Council to procure street lighting maintenance operations following the expiry of the existing contact with Amey LG. The 3 options available are to tender the service with a new contract specifically for the Council, join the North Yorkshire CC framework contract or take the whole service in-house and operate within the highway maintenance organisation.

Analysis

12. Option 1 – Tender the Service

Advantages

- Management of the front line service being the responsibility of the contractor.
- Reduced financial risk to the Council of the effect of market forces i.e. low work volumes, high vehicle and equipment cost/repairs. The Council is not responsible for purchase or lease of plant or equipment.
- Limited liability for works and operatives as the contractor carries the risk.
- Ability to react to a programmed increase in workload.
- Contractor responsible for maintaining stocks levels and upfront costs.
- Existing Amey LG staffs will TUPE to new contractor with no cost to the Council.

Disadvantages

- Profit element built into costs attributed to the contract.
- Increased amount of administration involved in client/ contractor relationship relating to ordering, finance, scheduling and work control.
- Tendency for the contractor to share resources with other contracts/ councils.
- Overhead costs charged to the contract for commercial and management roles within the contractor's organisation.
- Variation on price and price fluctuations built into duration of the contract. The cost will increase on an annual basis.
- Limited flexibility within the contract to react to changing demands from the Council. This may lead to increase charges due to re-negotiation.
- Percentage uplift added to all materials by the contractor.

13. The option to tender the street lighting term maintenance operations will require the Council to enter an agreement with a contractor to provide this service. The setup will require a client and contractor structure to be in place. There will be limited flexibility with the contract and with uncertain budget pressures, additional costs may be incurred.

14. Option 2 – Joining the NYCC term contract

Advantages

- As option 1
- Tender process already undertaken and contract in progress with possible early start.
- Contractor mobilised and willing to extend operation within the Council area.
- Existing Amey LG staffs will TUPE to new contractor with no cost to the Council.

Disadvantages

- As option 1
- Contract terms are already in place and are managed by NYCC. This arrangement will complicate operating of the service within the Council area and will include a fee charged by NYCC.
- Conflict resolution will be more difficult as this will require consultation with NYCC.
- The Council have no experience of the NEC3 term contract arrangements.
- Contractor is not currently based within the Councils geographical area.
- Loss of local knowledge and people.

15. Comparison of the NYCC term maintenance contract with the existing Amey GL contract has established a significant increase in cost when comparing routine maintenance activities between the 2 arrangements. This may be attributed to the different geographical characteristics of the 2 administrative areas.

16. Option 3 – Transfer the Service In-house

Advantages

- Integration of the management and operations within the Highway Maintenance Services (HMS) will lead to financial efficiencies.
- Reduced cost to the Council with the removal of the profit element of the contract.
- Integration of plant and resources to benefit all of HMS, reducing cost across the department.

- Cost savings in the removal and integration of administrative duties within HMS processes.
- New skill set for the Council to expand its business areas providing both installation and maintenance service to other public/private bodies and potential developers. All profit raised through this enterprise will be received by the Council.
- More flexibility in setting and amending targets, performance and the ability to priorities budget within the service.
- Being part of an industry sector scheme will give the Council access to good practices within the industry.
- Guaranteed joined up service delivery ethos rather than a focus on a profit and loss culture.
- Consistency with existing Council's health and safety policies and practices including staff wellbeing.
- The ability to enter into joint procurement arrangements with other authorities.
- Ability to manage all aspects of the service will give the Council the opportunity to enhance the service and out perform existing standards.
- Ability to react more quickly to street lighting faults of apparatus in confined spaces which can only be accessible by Skywinder equipment. The equipment will not be shared with other contracts and will be available at all times.

Disadvantages

- There is a minimal risk that skilled staff may not TUPE leading to recruitment and training costs although this may give an opportunity to recruit local people.
 - Requirements to manage stock and the requirement to purchase materials up front.
17. The provision to bring the service in-house has a number of benefits to the Council. The service will be able to react more easily to service pressures and emergencies as they occur. The Council will also benefit financially from the promotion of a service to other public and private bodies where a profile and/or fee arrangement will be applied.
 18. A restructure of the street lighting team will be undertaken if the service is brought in-house. The process will lead to efficiency savings and it is envisaged that any costs incurred will be taken from the first year's profit and reduced costs.

19. It is anticipated that an in-house arrangement will generate a profit element of £5k for every £100k of turnover within the service. The approval of option 3 also gives the Council the opportunity to exploit other avenues of turnover which will contribute to the budget savings without affecting the level of service.

Council Plan

20. Through the proposed programme the City and Environmental Services directorate supports delivery of the create jobs and grow the economy, get York moving and protect the environment themes from the Councils key priorities.

Implications

Financial

21. Both options 1 and 2 have been identified to produce similar cost associated with existing service levels. There is a potential cost saving to the service with option 3 by taking the service in-house and removing the profit element.
22. There is a potential profit to be made by providing an installation and maintenance service to public/private bodies and developers within the Council area.

Human Resources (HR)

23. 9.5 fte staff has been identified by Amey LG to TUPE to the new service provided by a contractor or in-house arrangement.

Equalities

24. There will be no change to the current Equality Impact Assessment for the new service to be provided.

Legal

25. The existing contract cannot be extending beyond April 2013 and therefore the service should be tendered or taken in-house.
26. It is envisaged that the new service will operate with the Council being responsible for the management of third party claims and recharges.

Crime and Disorder

27. There are no crime and disorder implications.

Information Technology (IT)

28. There are no information technology implications.

Property

29. There are no property implications.

Other

30. There are no other implications.

Risk Management

31. Options 1 and 2 will transfer the majority of the risk to the contractor while option 3, taking the service in-house will transfer all the risk to the Council.
32. The existing term maintenance contract operates with a lump sum cost for the repair of faults. The risk is borne by the contractor and consequently is reflected in the lump sum costs. The majority of new term maintenance contracts do not include a lump sum arrangement preferring to use a schedule of rates. This approach has been adopted by the North Yorkshire CC term contract.
33. In compliance with the Council's risk management strategy, the main risks that have been identified in this report are:
- Strategic Risk, arising from judgements in relation to medium term goals for the service
 - Physical Risks, arising from potential under investment in assets
 - Financial Risk, from pressures on budgets
 - People Risks, affecting staff if budgets decline
34. Measured in terms of impact and likelihood the risk score for all of the above 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 this report

Recommendations

35. The Cabinet Member is recommended to:
- (i) Approve option 3 of this report by taking the street lighting service in-house.
 - (ii) Cancel the night scouting operations and rely on public reporting.
36. The delivery of the benefits of option 3 for the service will be achieved by the Council managing the potential risks of an increase in faults and third party liabilities.

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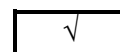
**Report
 Approved**



Date 11 February
 2013

Wards Affected:

All



For further information please contact the author of the report

Background Papers: None

Annexes: None