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## 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 :

<b>Total amount borrowed</b>		£433k
provided over 2 years:		
2003/04	£162k	
2004/05	£271k	
Payments originally scheduled over 2 years:		
2005/06	£250k	
2006/07	£183k	
<b>Actual Payments made:</b>		
2005/06 (from Directorate under spends)		-£80k
2006/07 (£100k from budget & £125k from capital underspend)		-£225k
		<hr/> £128k
<b>Proposals to finish repayments are:</b>		
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

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**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