

HAMPSHIRE COUNTY COUNCIL**Report**

Committee:	Economy, Transport & Environment Select Committee
Date:	28 April 2014
Title:	Future of Highway Service Delivery Arrangements
Reference:	5806
Report From:	Director of Economy, Transport and Environment

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1. Purpose of Report

- 1.1. For the Economy, Transport & Environment Select Committee to pre-scrutinise the proposals for the future highway service delivery arrangements (see report attached due to be considered at the decision day of the Executive Member for Economy, Transport & Environment on 6 May 2014).

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Executive Member for Economy, Transport & Environment
Date:	6 May 2014
Title:	Future of Highway Service Delivery Arrangements
Reference:	5713
Report From:	Director of Economy, Transport & Environment

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1. Executive Summary

1.1. The purpose of this paper is to gain approval for intermediate arrangements for Highway Services to deliver efficiency savings and improve commissioning of works, and for the exploration of longer term options for service delivery.

1.2 This paper seeks to

- set out the background to the current highway service and, in particular, the Term Highway Contract;
- consider the potential options for future highway service delivery;
- briefly consider the short to medium term options for service delivery and their impact on longer term aspirations for financial savings and increased public expectations;
- set out a proposal for intermediate arrangements for highway service delivery to 2018.

2. Contextual information

2.1. Highway services in Hampshire are currently delivered through a combination of in-house resources, dealing with enquiries, inspections and works ordering, and the Term Highway Contract (THC), with responsibility for delivery on the ground. The THC is operated by Amey LG.

2.2. The Term Highway Contract commenced in May 2008 for an initial period of 7 years, with three possible years of extension available, subject to satisfactory performance. A one year extension was granted in 2011/12, securing a £2M saving to the Council and a commitment from Amey to work closely with the County Council to seek further efficiencies and other improvements to the service. As such, the THC is currently due to end on 30th April 2016. A period of two years is required to complete the process to procure and mobilise a replacement contract. This would therefore require an immediate start to be made and a replacement contract to take effect in 2016 and therefore preclude consideration of significant variation to the THC arrangements.

- 2.3. Over the past 18 months, considerable changes have taken place within the highway service. Core management systems and processes have been replaced by both the County Council and Amey to provide a greatly enhanced delivery model that enables much greater visibility and management of all aspects of the service, including enquiries, inspections, works ordering and payments.
- 2.4. Joint working between the two parties has enabled a much more integrated approach to be developed than would have been possible by the County Council alone. This means that works management and programming is more coordinated, and that it is possible to provide customers with much better information and automated updates on any enquiries that they may have raised.
- 2.5. It is appropriate, however, to highlight that these changes are of such a scale that there have, and continue to be, some issues affecting performance. These are being identified and resolved through continued joint working, to enable a transformational change to be delivered within the highway service.
- 2.6. Amey LG are fully committed to continuing to work within Hampshire, and are keen to secure the remaining two years of extensions available under the Term Highway Contract.

3. Finance

- 3.1. The Highway Maintenance budget for 2014/15 has been set at around £70M, of which approximately £47M will be delivered through the Term Highway Contract.
- 3.2. Annual spend through the Term Highway Contract has varied significantly over time, with £37.5M committed in Year 1, £41.6M in Year 2, £46.8M in Year 3, £51.2M in Year 4, £51.4M in Year 5 and an estimated £60M in Year 6. The increases in the latter years reflect additional capital works delivered by Amey LG in connection with Operation Restore/Resilience.
- 3.3. Benchmarking of rates from the Term Highway Contract are difficult to undertake with any great degree of accuracy, given the specific nature of the contract compared to others. However, some recent benchmarking suggests that rates within the contract are generally competitive with other similar contracts, and considerably cheaper when compared to the use of local contractors through the South-East 7 regional and sub-regional frameworks.
- 3.4. Given the long term nature of the Term Highway Contract, it includes a mechanism to allow for rates to be revised on an annual basis to reflect inflation. This mechanism has enabled the County Council to control the increase in rates over time, and has served to protect it from the volatile nature of the construction market. This is particularly noticeable for bituminous products, such as surfacing materials and binders, which have suffered considerable inflation increases over the last 6 years. As such, it is highly likely that rates will be more expensive on the open market at this time.
- 3.5. Given the County Council's Transformation to 2015 programme, discussions have been held with Amey LG and opportunities identified to assist in the achievement of required revenue savings targets. At present, operational savings have been identified from the THC that will meet these requirements.

3.6. Further discussions are also underway in respect of savings beyond 2015. To this end, Amey are offering further savings for any additional extension period granted, as well as continued commitment to greater integrated working and identification of efficiencies and customer service improvements.

4. Performance

4.1. Highway maintenance is a very public service that generates considerable customer contact and media interest. It is normal for 5000 to 6000 enquiries to be received in a month, but this can quickly double if adverse weather affects the county and its roads. Customer expectations are ever increasing, making the challenge of managing this many enquiries increasingly difficult.

4.2. Despite this, Hampshire County Council has successfully achieved good results in the annual NHT Public Satisfaction Survey in respect of highway maintenance. In particular, the County Council is recognised as being the second best county council nationally in terms of 'Satisfaction with Highway Maintenance', and has been for the past two years. It also compares very well against other local authorities in respect of quality and speed of repairs, and for road and footway condition generally.

4.3. Performance of the Term Highway Contractor, Amey LG, has varied quite considerably over the duration of the contract since 2008. Early years were far from ideal, with numerous issues and contractual challenges requiring resolution. In more recent years, some improvements have been made to key aspects, however, even as recently as 2012/13 there remained some considerable challenges in terms of works delivery.

4.4. As outlined above, the last 18 months have seen a major change in all aspects of the service. The County Council implemented a new IT management system (Confirm) for the entire highway service in February 2013. This included the following fundamental improvements:

- New inspections procedure to improve capability for recording and analysing inspection data;
- New completion timescales for all safety defect related work;
- Automated responses and tracking for public enquiries, whether through the website or HantsDirect;
- Mobile devices for engineers/inspectors, to speed up inspections and ordering of works, as well as making it possible to accurately locate defects through GPS and included photographs;
- Ability for staff and managers to track workload through maps and dashboards;
- Enhanced data to enable reactive management of all aspects of the service.

4.5. This change was mirrored by Amey's introduction of a standard operating model (SOM), which they have been able to integrate into the new processes and systems to streamline works ordering and payments. Work remains ongoing to further improve this, with the goal of ensuring that all works instructed pass through the processes first time, avoiding delays and ensuring better perception by the public.

- 4.6. The introduction of Confirm and SOM has been a major undertaking for the service, and has led to some unintended consequences that are currently being reviewed. As such, it is not appropriate to report on any specific performance measures at this time, owing to the discrepancies currently recorded in the system.
- 4.7. It is appropriate, however, to highlight two major successes for the service over the last year:
- **Planned Maintenance Programme** – Through joint working, it has been possible to deliver a greatly enhanced programme of resurfacing, surface dressing and other planned maintenance during the last year. A considerable volume of this work (c. £10M) was not able to be delivered in 2012/13 owing to the poor weather and other resourcing factors. However, all of this backlog and the normal 2013/14 programme have been delivered in the last twelve months, using additional resources and enhanced planning and coordination.
 - **Adverse Weather** – Unplanned activities resulting from adverse weather prove particularly problematic for a contractor to resource. Over the last two winters, Amey LG have been able to provide excellent support for a number of challenging situations, working closely with County Council officers to prioritise and respond to issues as they arise, 24 hours a day, for the duration of the event.

5. Future Options for Service Delivery

- 5.1. In preparation for the potential replacement of the existing Term Highway Contract in May 2016, the work has been progressing on a highway contract strategy. This work aimed to review current options for highway service delivery and, in particular, to investigate appropriate delivery models to include a Direct Labour Organisation (DLO), a Term Maintenance Contract (TMC) and a Managed Service Contract (MSC).
- 5.2. The work included an element of market engagement with suppliers of such services, a review of the existing contract with HCC staff and discussions with other local highway authorities who have used different delivery models.
- 5.3. Discussions are also taking place with neighbouring authorities to explore opportunities for collaborative working for elements of the highways service, with a view to forming a future working partnership or alliance. Any such arrangement would seek to be formalised with a Memorandum of Understanding.
- 5.4. The outcome of these investigations and discussions were fed back to the senior managers responsible for the highway service in December 2013 and a report taken back to Departmental Management Team in January 2014 outlining a number of issues for further consideration.
- 5.5. Many of these issues were of a technical or contractual nature. However the general recommendation was that any future contract arrangements should strongly favour a more integrated approach to service delivery. This is the approach that has been developed over the past 18 months with Amey, and findings from this direct involvement support such a view, as it enables the right solution to be developed jointly and then implemented for mutual benefit. .

- 5.6. An integrated approach will also enable the County Council to retain its core skills, as it sees appropriate, whilst allowing more flexibility for the contractor to develop and deliver efficient and effective ways of working. It could also lead to more direct control of resources and delivery by the County Council, where it sees that of benefit to service delivery.
- 5.7. In essence, an integrated service approach would provide greater flexibility for future service delivery, and to achieve savings from any future contract, whilst still affording the Council the level of control that it seeks. This potentially allows the best elements of any delivery model to be considered, but does lead to some complication and potential risk if the contract is not appropriately drafted and managed.

6. Short/Medium Term Issues

- 6.1. In order to make sure that any future integrated delivery model is appropriately established, there is a need for any new contract arrangements to be sound and well considered.
- 6.2. A standard procurement process for such a large and complex contract takes two years as a minimum. The level of changes required for a new form of integrated contract to be implemented will considerably exceed this timescale. This is further exacerbated if any form of collaborative working arrangement is progressed with a neighbouring authority.
- 6.3. In addition, the need to clearly express the requirements of integration within a contract is paramount, if undue risk of contractual claims is to be avoided. Any contract needs to be as clear as possible, and so the specification of requirements is crucial. At present, the County Council is not in a position to be able to clearly produce such a specification, as further experience of integrated working with Amey is required, as well as further discussion on such arrangements with other local authorities.
- 6.4. As such, it is suggested that more time is required to develop the most appropriate integrated delivery model, and to ensure that it is as robust as possible before progressing through the formal procurement process.
- 6.5. Issues with the transformational change currently underway within the highway service are also worthy of note. There is a need for a cultural change within the County Council, to embrace the new way of working and to ensure its continued success. Changing a contractor is very disruptive at any time, but would be particularly so if it were to occur before the appropriate changes had been at least substantially achieved.

7. Proposed Intermediate Arrangements

- 7.1. Given the current joint work being undertaken with Amey to develop improved processes and service delivery through Confirm and SOM, it is suggested that this proceed apace, and that lessons be learnt to inform the new contract proposals. Performance can still be improved through this work, as greater consistency and compliance with the new processes is embedded.
- 7.2. Discussions with neighbouring authorities should continue in respect of potential collaborative working arrangements, and also to learn lessons from their approach to different service delivery models.

- 7.3. Amey have also offered to look at other aspects of the highway service, in order to seek further efficiency opportunities over the remaining years of the contract. More specifically, they have offered cashable savings that are considered to provide good value for Hampshire for each year of extension beyond 2016, which would significantly assist in achievement of future savings targets.
- 7.4. It is therefore proposed that an extension of the Term Highway Contract should be granted to Amey LG at this time, in order to secure additional time to develop a new delivery model and explore new ways of working with them, as well as securing cashable savings in 2016/17 and 2017/18.
- 7.5. It may be most appropriate to offer them a single year of extension with immediate effect, and the subsequent year in 12 months time, subject to continued development of efficiencies, satisfaction with performance, and need to defer the procurement.

8. Select Committee Review

- 8.1. The performance and extensions of the current Term Highways Contract and delivery options for the next highways service are to be reviewed by ETE Select Committee on 28 April 2014. Any comments from the Committee will be reported to the Executive Member for ETE at the Decision Day on the 6th May.

9. Recommendations

- 9.1. That approval be given for intermediate arrangements for Highway Services to deliver efficiency savings and improve commissioning of works, and for the exploration of longer term options.
- 9.2. That approval be given to continue work with neighbouring local authorities to pursue potential opportunities for highway efficiencies and savings through collaborative working and shared services.
- 9.3. That approval be given to grant Amey LG an extension of up to a maximum of two years within the provisions of the existing Term Highways Contract to facilitate the intermediate arrangements outlined in this report.
- 9.4. That authority be delegated to the Director of Economy, Transport, and Environment in consultation with the Executive Member for Economy, Transport, and Environment to agree and implement the details of any arrangements with Amey LG pursuant to delivery of the proposed arrangements set out in the report.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

10. Equalities Impact Assessment:

- 1.1 The proposals in this report have been developed with due regard to the requirements of the Equality Act 2010, including the Public Sector Equality Duty and the Council's equality objectives. The website contains a summary [assessment of the impacts](#) on Keeping Hampshire Moving
- 1.2 It is considered that the issues covered by this report will not have impacts requiring further specific actions by the Council above those already established in its existing policies and working procedures.

11. Impact on Crime and Disorder:

- 11.1. None

12. Climate Change:

- 12.1. How does what is being proposed impact on our carbon footprint / energy consumption? No change
- 12.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? N/A