

		<b>AGENDA ITEM 4</b>
		<b>EDE/07/11</b>
<b>Committee:</b>	<b>Economic Development and Environment Policy &amp; Scrutiny Committee</b>	
<b>Date:</b>	<b>17 March 2011</b>	
<b>SCRUTINY REVIEW ON THE HIGHWAYS STRATEGIC TRANSFORMATION PROGRAMME</b>		
<b>Enquiries to:</b>	<b>Christine Sharland, Governance Officer</b> 01245 430450 <b>Christine.sharland@essex.gov.uk</b>	

In December 2010 (Minute 65) the Committee agreed that it wanted to review the new single contractual arrangements that were being proposed as part of the Highways Service Transformation Programme. A scoping document has been drafted for the review and is attached at Appendix A.

The objective of the scrutiny review is:

‘To scrutinise how the proposed new contract for the delivery of the Highways Service will operate in practice.’

Councillor Hume, the Cabinet Member for Highways and Transportation has been invited to this meeting to address the Committee and answer Members’ questions.

A briefing paper prepared on behalf of the Cabinet Member’s behalf is attached at Appendix B. The

**Action required by the Committee:**

**With reference to the scoping document that sets out a number of issues to be addressed by the Committee today, Members are requested to consider the information now submitted by the Cabinet Member.**

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**Appendix A**

## Draft Scoping Document for Scrutiny Review on Highways Service Transformation

<b>Committee</b>	Economic Development and Environment Policy and Scrutiny Committee	
<b>Topic</b>	<b>Highways Service Transformation</b>	Ref: <b>EDE-SCR-25</b>
<b>Objective</b>	To scrutinise how the proposed new contract for the delivery of the Highways Service will operate in practice.	
<b>Reasons for undertaking review</b>	<p>The Cabinet Member for Highways and Transportation has circulated some information to County Councillors on proposals for transforming the Council's Highways Service, and some Councillors have attended seminars on the subject.</p> <p>The Committee wishes to learn more about the proposals to replace existing arrangements for the delivery of the Highways Service with one new contract, and to scrutinise how those</p>	
<b>Method</b>		
<b>Membership</b>	Full Committee	
<b>Issues to be addressed</b>	<p>The types of questions that have been identified so far include:</p> <ul style="list-style-type: none"> <li>• What are the current arrangements with existing contractors, and why is it proposed to move a one contractor situation?</li> <li>• How will the contract be drawn up and by whom? Members have indicated that they would wish to see a draft outline of the proposed contract in advance in order to develop their lines of questioning.</li> <li>• What are the likely costs associated with the new contract?</li> <li>• How would that contractor be held to account?</li> <li>• How will any sub contractors be held to account?</li> <li>• What has been taken into account as a part of any risk management assessment that has been carried out? How will risk be managed?</li> <li>• How will issues like the management of works</li> </ul>	

	<p>undertaken by the Statutory Utilities be undertaken under the proposed new arrangements?</p> <ul style="list-style-type: none"> <li>• The Committee would like to receive in advance a copy of the advert that has been published inviting potential tenders for the new contract.</li> </ul>
<b>Sources of Evidence and witnesses</b>	<p>Commission briefing paper</p> <p>Witnesses to include:</p> <ul style="list-style-type: none"> <li>• Cabinet Member for Highways and Transportation</li> <li>• Paul Bird, Director of Highways and Transformation</li> </ul>
<b>Work Programme</b>	17 March 2011 – Initial briefing
<b>Indicators of Success</b>	Production of an evidence based scrutiny report setting out the Committee’s findings, and future monitoring to assess the success or otherwise of any recommendations that may be made.
<p><b>Meeting the CfPS Objectives</b></p> <ul style="list-style-type: none"> <li>• <i>Critical Friend Challenge to Executive</i></li> <li>• <i>Reflect Public voice and concerns</i></li> <li>• <i>Own the scrutiny process</i></li> <li>• <i>Impact on service delivery</i></li> </ul>	<p>The Committee will act as a critical friend to the Executive by examining the proposals for transforming its proposal to introduce new contractual arrangements for the delivery of the Council’s Highways Service.</p> <p>The proposals are significant and will have an impact upon the Service and therefore it is important that the Committee fulfils its role as a scrutiny champion, and reflect the public voice and concerns of local residents through the review.</p>
<b>Diversity and Equality</b>	If any of the Council’s Diversity and Equality Policies are identified during the course of review, they will be taken into consideration as appropriate.
<b>Date agreed by Committee</b>	

<b>Future Action</b>			
<b>Governance Officer</b>	Christine Sharland	<b>Committee Officer</b>	Ian Myers
<b>Service Lead Officer(s)</b>	Paul Bird, Director of Highways and Transportation		

Briefing Paper prepared on behalf of Councillor Hume, the Cabinet Member for Highways and Transportation

## **Highways Strategic Transformation Programme**

### **To scrutinise how the proposed new contract for the delivery of the Highways Service will operate in practice**

#### **1. Background**

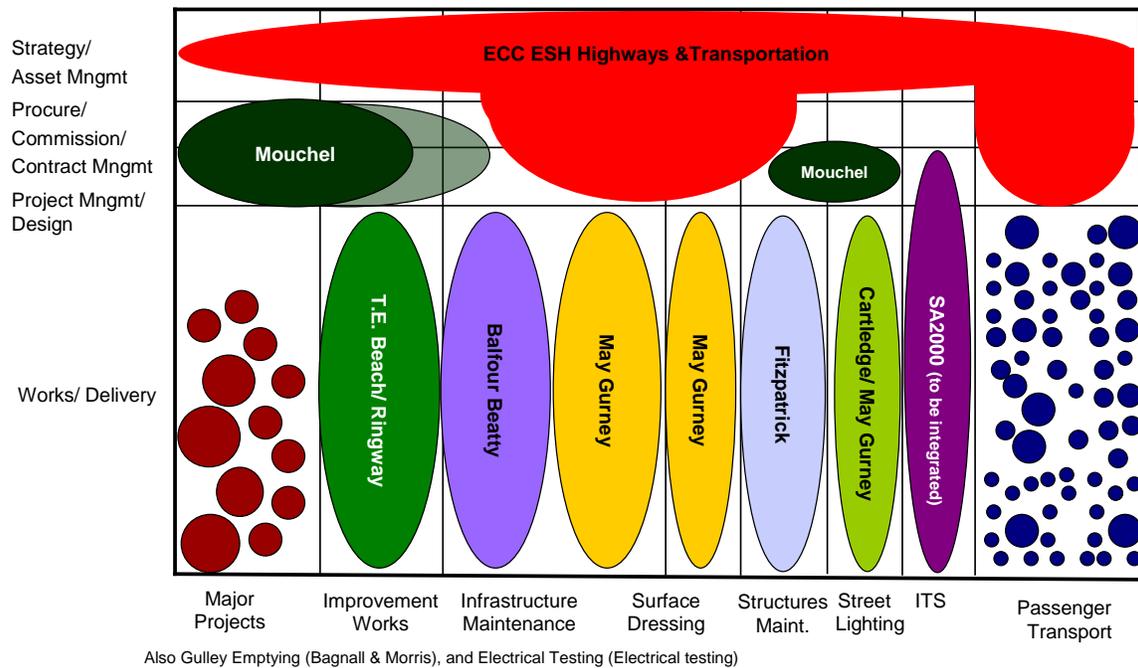
ECC currently manages its Highways and Transportation services via 10 contracts. These are terminating before 31<sup>st</sup> March 2012 therefore ECC is seeking an innovative private sector partner (single or consortia) in line with the ECC target operating model. Building on the core values of EssexWorks this new strategic partnership will deliver a cost effective and customer focused Highways services to the Essex residents and potentially other organisations.

The Highways Strategic Transformation programme commenced August 2009. Early market engagement activities between Aug 2009 and Jun 2010 which have given reassurance that the market is enthusiastic and appears to be ready to embrace such an agreement. It has also given further clarity regarding the HST requirements and has enabled a decision to be made regarding the most appropriate procurement procedure.

The contract will be drawn up by Essex Legal Services and is estimated to have a value in the region of £0.5billion - £3billion over a contract period of 10 years with an option to extend for a period (or succession of periods) of 5 years in total. The scope of services delivered under this contract is listed as part of the OJEU, which was issued in July 2010 after approval of the Outline Business Case by the Outcomes Board in June 2010. A copy of the OJEU can be found at the end of this report. ECC is currently going through competitive dialogue with the three short-listed bidder in order to develop the delivery model in further detail. It is anticipated that approval of the preferred bidders will take place September 2011, with the new contract being awarded in December 2011 and the new model effective from 1 April 2012.

#### **2. Current Delivery Model**

The current contracting position is represented in Figure 1. Ten term contracts are used to deliver the service, typically with prescriptive commercial arrangements. Correspondingly, a large client organisation is required to manage this activity.



**Figure 1: ECC Current Contracts**

### 3. Options Considered

The following options were identified.

- Option 0: Retain and Improve Current Configuration
- Option 1: Limited Service Bundling – Maintenance
- Option 2: Combine EC and ITS
- Option 3: Managing Agent Contractor
- Option 4: Integrated Service Provider (excluding ITS) – Inspection Retained
- Option 5: Integrated Service Provider/Separate Major Works Delivery

Four key factors were used to develop each of these options as follows:

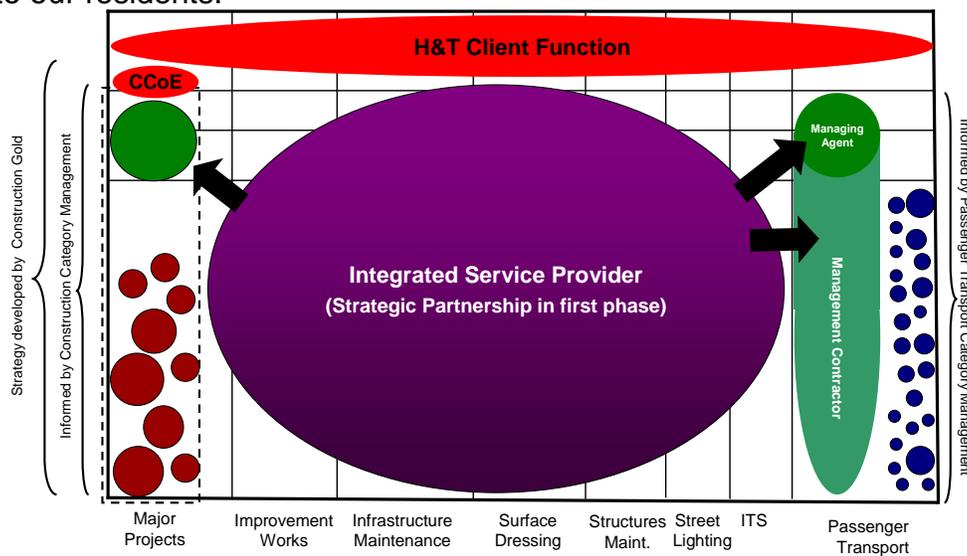
- Service bundling: the level of aggregation within the supply chain
- Relationship Model: the nature of the contractual relationship between the client function and the supply chain
- Risk transfer: the level of risk transfer, typically by a mixture of pricing models, outcome-based specifications, or asset transfer
- Client model: the nature of the client function to support the new supply chain strategy and description of any changes to roles and responsibilities

As a result of the workshops and supporting analysis an Integrated Service Provider Model (ISP) was selected as the most appropriate long term delivery model in terms of service aggregation. The ITS contract will be incorporated after its natural expiry date in April 2013. This will also mitigate some implementation risk by allowing for the more

asset-intensive systems and services the time to “bed-in” before the ISP takes on the ITS function. This aggregation model therefore corresponds to Option 4, transferring to Option 5.

#### 4. Preferred Delivery Model

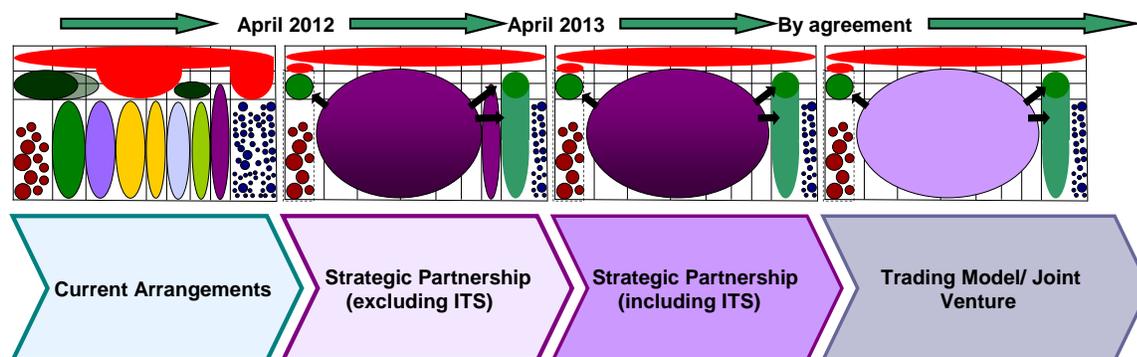
It is proposed to move to a strategic partnership as shown in the diagram where there is one strong and customer focused strategic partnership with the capability and experience to deliver the majority of the services, currently supplied by more than 10 contracts. In line with ECC Target Operating Model (TOM), Essex Highways and Transportation will be transformed into an efficient commissioning function with ‘seamless’ interfaces to our customers, partners and the wider authority. A joint team of ECC employees and our strategic partner’s employees will deliver high-standard services to our residents.



Initially ECC employees will remain with the authority but will be co-located with the strategic partner. Similar strategic partnership models are working in Buckinghamshire, Gloucestershire and more recently Oxfordshire – we plan to learn from these programmes and ensure to design the best solution for Essex.

In time, if predefined criteria are met and both parties are in agreement, the strategic partnership may evolve into a joint venture or alternative trading vehicle which supports trading opportunities with other organisations. The timing for this event is not predetermined, but is unlikely to occur prior to 2014/15 financial year.

The overall transition is given in Figure 3.



**Figure 2: Transition of the Highways Strategic Transformation**

## 5. Key Objectives

The key objectives of the Highways Strategic Transformation (HST) programme are to:

- Successfully procure and implement the preferred delivery model and lean ways of working by 1<sup>st</sup> April 2012
- Design an efficient delivery model so to generate sustainable financial savings leading up to 2012/2013 and beyond, and providing excellent customer service
- Balance the potential benefits with the foreseeable risks

## 6. Key Benefits

There are estimated savings of £4.15m in year 2012/13 and there will be ongoing efficiency targets agreed with the preferred bidder.

Supply-side savings for the transformation will be drawn from;

- economies of scale,=
- economies of scope (synergies arising from the combination of differing service lines)
- alignment and co-ordination of delivery
- greater transparency of demand; better matching of supply and demand,
- better asset and resource utilisation
- reduced bidding costs..

Internal savings will be drawn from;

- Reduced man-marking and monitoring
- specification of outcomes rather than prescriptive inputs
- better asset and resource utilisation
- improved business processes
- reduced bidding costs
- reduced need for change control.

The Highways Improvement Programme has already achieved over £7m in savings leading up to March 2012. This will act to significantly reduce the level of inefficiency in the current H&T delivery model as a whole, and the outputs of this economic case are in addition to the HIP savings.

## **7. HST Contract**

### **7.1 How would the contractor be held to account?**

There will be an overall Strategic Partnership Board consisting of ECC employees and the Integrated Service Provider directors. This will be supported by an Operational Board for day to day operational matters. The partnership approach means that ECC staff will be co-located and managed together with the ISP staff and there will be joint ownership of performance and operational efficiency.

This is radically different from the client/contractor model that is used at present. There will be an annual business planning process to agree performance levels against the resources available; this will ensure that there are regular reviews of priorities and budgets. The performance regime, nature and level of performance thresholds under the proposed contract are subject to review by the strategic partnership board. If the contractor substantially fails to provide services or persistently fails to fulfil required performance thresholds, the Authority may terminate the contract.

### **7.2 How will any sub contractors be held to account?**

The contractor is primarily liable to the Authority for the performance of services under the proposed contract. If the contractor subcontracts any part of the services, it remains responsible for performance as if the services had not been subcontracted. The proposed contract requires the contractor to submit the names of proposed subcontractors to the service manager in advance. The proposed contract requires the contractor to include certain terms within the subcontracts, including the following obligations on subcontractors;

- to embody the principles of supply chain management set out in the quality plan,
- to work with the contractor to assist the Authority to achieve strategic outcomes and continuous improvement
- to maintain records and facilitate Authority auditing process
- equality and non discrimination
- early payment and passing of title in goods
- mutual trust and co-operation
- sustainability, recycling and environmental requirements

### **7.3 How will issues like the management of works undertaken by the Statutory Utilities be undertaken under the proposed new arrangements?**

The management of the statutory undertakers through the New Roads and Street Works Act will be jointly delivered by ECC and the ISP.

## 8. Key Milestones

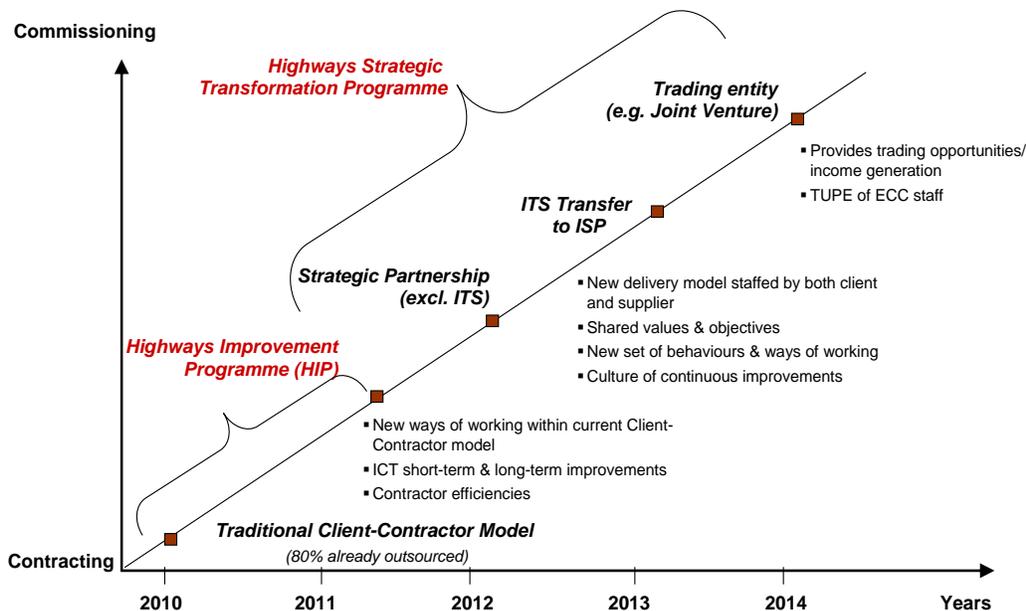
<b>Dates</b>	<b>Activity</b>
<b>31 January – 18 May 2011</b>	Bidder Dialogue
<b>19 May 2011</b>	Deadline for Submission of Mock Bid Responses
<b>23 May – 1 July 2011</b>	Mock Bid Review
<b>4 July 2011</b>	Close of Dialogue
<b>4 July 2011</b>	Issuing ITSFB (Invitation to Submit Final Bid) to bidders
<b>28 July 2011</b>	Deadline for Submission of ITSFB Responses
<b>1 August – 9 September 2011</b>	Evaluation of ITSFB Submissions
<b>W/c 12 September 2011</b>	Approval of Preferred Bidder
<b>19 September 2011</b>	Preferred Bidder
<b>19 September – 30 September 2011</b>	Standstill
<b>Dec 2011</b>	Contract Award
<b>17 October 2011 – 29 March 2012</b>	Mobilisation
<b>1 April 2012</b>	Being operational with Strategic Partnership

## 9. Risk Management

The programme risks are recorded and monitored by using JCAD in line with the corporate risk management strategy 2010/11, and reviewed regularly by various boards. Operational risks will be developed jointly with each bidder during competitive dialogue in a strategic approach for risk management with appropriate links to the new governance boards.

## Change Programme

The diagram below shows the journey Highways and Transportation is undergoing to move from a traditional contract-client model to a commissioning based model with the objective to combine a heightened customer-focused approach to local services with the efficiency and consistency of centralised management and control.



All of these initiatives provide an increased level of change and therefore H&T needs to be cognisant of the absorption rate of change for employees. H&T employees need to be flexible and adaptable to take on increasing levels of change which will be achieved via the implementation of an empowered, open, honest and collaborative culture where every person takes ownership and responsibility for their own outcomes. The current change programme consists of a number of elements to ensure that H&T have the capability needed for the future, that staff are engaged in the process, are communicated in an effective way and that the required culture is fully embedded. This programme dovetails with the wider ESH change initiatives and H&T will work together with the successful partner to develop this further into a joint approach to change, including a detailed joint mobilisation plan, agreement on roles and responsibilities and ownership of the elements of the plan which will be developed through the competitive dialogue process.

After contract award, the change programme will continue to be developed, ensuring that lessons learnt and best practice from both perspectives are joined together to provide a powerful partnership with collaboration at its heart.

The current change programme is lead by a Change Manager in conjunction with the ESH Head of Change Delivery and is sponsored by the Director of H&T. It provides the framework to support the change; specifics within this framework are being developed in line with the ever changing landscape, making sure that it delivers exactly what is needed at the right time throughout the programme and into the future partnership.