

Prepared by: -

Kingsclere Associates
10 – 12 Newbury Road
Kingsclere
Newbury
RG20 5SR

Tel: 01635 299196

Fax: 01635 297691

On Behalf of: -

Southampton City Council
45 Castle Way
Southampton SO14 2PD

Confidential

Southampton City Council

Report (Final Draft)

Highways Future Project – Scope Review

March 2008

1.0 INTRODUCTION

- 1.1 Kingsclere Associates was engaged by Southampton City Council to provide an independent view as to the scope for the Highways Future Project. The Highways Future Project (hereinafter referred to as the Project) has been established primarily to implement a long-term partnership arrangement for the delivery of Southampton City Council's Highways Service. An Outline Business Case is currently being developed to determine the structure of the partnership; and, as explained in the brief, the purpose of this review is to examine whether there is a case for the inclusion of related services such as gully cleansing, street cleansing and verge maintenance in the proposed partnership.

The brief and timetable

- 1.2 Specifically, the brief that was agreed was to look at a range of services currently delivered through separate arrangements (often in-house, but sometimes involving some sub-contracting arrangements) and to determine whether, on the basis of objective evidence, there is a case for including or excluding them from the scope of the Project; and to make recommendations accordingly. In terms of a timetable, it was agreed that a report should be produced by the end of March 2008 so as to inform decisions regarding the Project. Subsequently, a report recommending the proposed partnership scope and structure is due to be put before Members in summer 2008. Provided approval of the partnership is secured a Competitive Dialogue Procurement Process will commence in late 2008 with a service commencement date for the partnership currently planned for September 2010.

Context and Background

- 1.3 As explained in the brief, the Council has developed a strategy for delivering its Highways Service; and the Strategic Business Case has identified that the most suitable vehicle for service delivery is a long-term (10 years plus) highways partnership with a private sector provider. It is argued that the partnership with the private sector will drive out inefficiencies in service delivery, which can be re-invested into the highway network, and encourage investment from the partner in the service delivery infrastructure. As part of the process of designing the partnership, and in discussions with Cross-Party Members and Senior Officers the issue of the services to be included within the partnership has been raised; with a view being taken that all services which are delivered on-street or on-highway should be considered for inclusion.
- 1.4 The table overleaf (which was provided as part of the brief) details the current assumption of what will be in-scope and out-of-scope. The table also includes a column detailing those services/service areas which need to be considered for inclusion.

In-scope	Possible Inclusion	Out-of-scope
Highway planned and routine maintenance	Bridges and structures design and works	Street-lighting
Highway Capital Projects	Third Party liability claims	Parking
Highway management functions	Highways verges and trees	Refuse and waste disposal
Traffic signs	Street cleansing	Planning and Sustainability
Traffic signal maintenance	Gulley cleansing	Environmental health and protection
Urban traffic control	Fly tipping	Highway events management
Business Support	Grounds maintenance	
	Graffiti removal	

1.5 Nationally, a number of other similar long-term partnerships have been put in place for delivering and improving highways services: and the scope of these varies considerably. The concept of including all services that are delivered on-street is not a new one: but equally some partnerships concentrate on highways maintenance with separate arrangements for e.g. street cleansing and grounds maintenance.

1.6 As set out in the brief, the Council believes that there are a number of criteria/questions to be considered when determining the inclusion, or not, of services within the partnership and which need to be addressed in one form or another as part of the review, as follows:

Achievability and deliverability of the project:

- Does the inclusion of the service contribute to the objective of the partnership
- Does the inclusion of the service contribute to or diminish the focus of the partnership?
- Does the inclusion of the service impact on the deliverability and achievability of the project, given resources and timescales available?
- Does the inclusion of the service increase the contract management resources post-service commencement?

Commercial considerations:

- Does the inclusion of the service improve the attractiveness of the contract to the market?
- Does the inclusion of the service alter the core market?
- Can the service generate income for the partnership?
- What is the risk/reward balance of including the service?

Current service delivery:

- How is the service currently delivered?
- Impact of statutory responsibilities? Can they be delegated/split?
- What are the effects on the retained services?
- Is the service tied into any other contracts and what is the impact of terminating/opting-out of that contract?
- Does the inclusion of the service fit-in with existing/forthcoming strategies and agendas (service, division, directorate, council, local, regional, national)?

Financial considerations:

- Does the current service deliver VFM service (performance vs. budget)?
- What is the scope for making efficiency gains from the existing services (unit costs etc)?
- How can the Council ensure that a seamless service is delivered both with services included and with other services retained by the Council?

Methodology and Processes

1.7 In order to address the points highlighted above, these have included:

- Consulting with potential service suppliers to determine whether the exclusion or inclusion of particular services will increase or diminish their interest in the Project as well as understanding their financial considerations in terms of risk and reward;
- Examination of case studies to see what lessons can be learnt in terms of the inclusion or exclusion of particular services;
- Examination of indicators relating to the current services deemed possible for inclusion in the project; and
- Discussions with individuals involved in the current delivery of services deemed possible for inclusion in the project.

1.8 We would like to thank all who have participated in this project and contributed information that has been included in this report.

2.0 CONSULTATION WITH SERVICE PROVIDERS

2.1 The industry for highways maintenance is mature and there are many suppliers of these services for local authorities – including through long-term partnerships of the kind envisaged by the Council. In recent years there has been a process of consolidation (usually by means of takeover by one company of another e.g. the acquisition of Accord by Enterprise in 2007); and also an informal and subtle, but quite definite, realignment of relationships. These can be summarised as **integration** and **project management**.

Integration

2.2 All the (prime) contractors that we spoke with have aligned themselves with sub-contractors to fill in the gaps and offer, or *appear* to offer, a seamless service covering the widest bandwidth of services. This makes good commercial sense since the prime contractors know full well that, once their contract infrastructure is in place, they can manage much larger operations at little extra infrastructure costs. Further, they believe that with careful joined-up planning they can reduce service delivery costs (e.g. integrated sweeping / waste collection / verge cutting / litter picking)

2.3 It has been easy for contractors to find sub-contractors to provide these services; most of which are easy to execute but careful planning and supervision is required – meaning a need for project management skills

Project Management

2.4 Most if not all, the prime contractors that we spoke with have formed relationships with consultants who have the capabilities of technical consultancy (highways strategy planning, bridge inspections, etc) and management consultancy.

2.5 It is our opinion that the likes of Halcrow, Mouchel and Giffords are able to offer significant assistance to their contract partners in providing expert project planning advice to help manage large integrated contracts. It could be said that the management of a large, profitable, highways capital project (e.g. the M6 Toll extension) over a lengthy build period is a transferable skill directly applicable to LA contracting.

2.6 In general terms we view this as an enormously positive development which (nationally) should result in cost-effective and well run contracts. The cost of clienting these contracts should also be lower. However, for local authorities to fully realise these benefits, we believe that several actions need to be taken:

- First, it is desirable to co-locate the client and contract management cell – using the same building and the same ops room;
- Second, as part of the early stage in the Competitive Dialogue process, and before selecting a final short-list, the Council must interview all sub-

contractors both jointly and separately with prime contractors to determine the degree of commitment to integrations; and

- Third, it is necessary to design the client side according to the final solution.

General points re consultation exercise

- 2.7 The details of the consultation exercise are included as Appendix 1. We attempted to contact as many potential suppliers as possible but were unable to secure discussions with all. One of the problems encountered (which the Council needs to be aware of during the future stages of the Project) is that only a few people in each organisation seem to fully understand the general philosophy and approach of arrangements such as these: and talking to the wrong individuals gave poor results (in some cases the initial discussions led to a promise to call back: but this rarely happened). We encountered few problems of organisations being unwilling to talk to an independent consultant (although we believe that a few checked our credentials first). We were able, however, to talk to seven organisations (May Gurney, Dyer & Butler, Enterprise / Accord, Balfour Beatty, Halcrow, Colas and Amey) who are active in this field.
- 2.8 The responses given need to be treated with care: in particular, an initial response was often that it was better (and sometimes essential) to include certain services; but subsequent discussion clarified that the organisation might often be willing to work on a contract where these services were not included (and sometimes had reference sites where the contracts operated in this way. Additionally, some claimed expertise in certain services where subsequent research clarified that this was not the case or that their performance was not entirely satisfactory. This is an important point: contractors have sometimes found the potential to expand into areas beyond their normal scope too attractive to refuse but once asked to perform have found it less so – e.g. Amey held the refuse collection contract at Portsmouth until 2001 but did not wish to continue (and would not have been selected to do so even if the company had been willing); and the same company surrendered its contract for white-collar services with West Berkshire after less than half of the contract term.
- 2.9 Finally, comments made by contractors do not, of themselves determine what should be included within the scope of the Project, merely contribute to that decision: but they can, of themselves determine items that should not be included – quite simply, if potential service providers are unwilling to provide a service, a client cannot force them to do so, except possibly by paying a premium price and / or by accepting only limited service standards.

Summary of results of consultation exercise

- 2.10 If we first take the list of items that, in the brief and as reported in the table in 1.4 above, are deemed to be in-scope, there is a concern from a couple of organisations (Dyer & Butler and Balfour Beatty) regarding urban traffic control whilst others say that this is usually sub-contracted. If urban traffic

control was included some might, therefore, not bid whilst others would only bid on the basis of approved sub-contracting; although some (e.g. Amey) would handle this service directly. The exclusion of urban traffic control appears not to be a barrier to general contractor interest. The balance of the in-scope items are of interest to all contractors contacted: although most contractors accept that there needs to be some upper financial limit on the value of the capital projects that should be included (typically ranging from £100,000 to £250,000, but with some arguing for up to £2.5 million and others for no limit).

- 2.11 Turning to the list of items that, in the brief and as reported in the table in 1.4 above, are deemed to be possibly in-scope, there is a range of opinions. The biggest area of divergence is in relation to third party liability claims, with Dyer & Butler and Balfour Beatty arguing for non-inclusion; Enterprise / Accord raising some concerns; May Gurney and Colas seeming indifferent (could be included but need not be); and Halcrow and Amey preferring inclusion. Mostly, contractors argue in favour of including all of the rest of these functions (although there are some concerns re capability for some items, including graffiti cleaning): but when probed a few have little expertise in grounds maintenance away from the highway or street cleansing in an environment such as Southampton. The prime driver in their arguing for inclusion (apart from their own commercial considerations) is that the Council can have a service with 'fence-to-fence' responsibility, avoiding problems with e.g. litter blowing from one surface to another, grass-cutting to different standards on adjacent pieces of land and confusion as to who is responsible for each of these scenarios. Some respondents, however, say that this 'fence-to-fence' responsibility can be achieved without full inclusion of these services: and, indeed, some contracts work well without their full inclusion (although there may be e.g. a partnership or supply chain agreement or the equivalent of a service level agreement).
- 2.12 Turning to the list of items that, in the brief and as reported in the table in 1.4 above, are deemed to be out-of-scope, there is some appetite for inclusion of some of these services (although, for reasons noted in 2.8 and 2.9 above, this needs to be treated with caution. To take the items in turn:
- Street-lighting: many of the interviewees have expertise in this area, which is not doubted. This, however, is not an argument for including street lighting since the Council has a separate PFI project for this service (which we believe to be entirely appropriate); and, if they desire, companies can bid for this work through that process (which was acknowledged).
 - Parking: interviewees were initially keen to look at this service (sensing, we believe, potential income): but after discussion and consideration none were really keen on enforcement (although all agreed that it would be appropriate to include the maintenance of car park surfaces etc in-scope (which we believe is sensible).
 - Refuse collection and waste disposal: although many are keen to include this, only Enterprise / Accords has any claim of a successful track record in this

service area; and inclusion would skew the decision re contract award. It is worth noting that the other major companies engaged in this area for local authorities (Veolia, SITA, Biffa, Verdant) are waste specialists and do not deliver highways maintenance services.

- Planning and Sustainability: there was a mixed response to this, but many were keen on inclusion (although not all of these were clear as to how to deliver).
- Environmental health and protection: as above, there was a mixed response to this, but many were keen on inclusion (although not all of these were clear as to how to deliver).
- Highway events management: many were keen on the inclusion of this.

Conclusions

- 2.13 As noted above, the fact that contractors desire to include certain services does not, of itself, make the decision clear: but lack of contractor interest and / or expertise does.
- 2.14 On the basis of our consultation exercise, we believe that urban traffic control, having been identified as firmly in-scope, may need re-consideration; that financial limits for capital works need to be considered; that the inclusion of third party liability claims needs to be treated with caution; and that street lighting, parking enforcement, refuse collection and disposal be confirmed as excluded and not considered further.

3.0 CASE STUDIES

3.1 There are a number of long-term highways contracts between local authorities and the private sector: but the majority of these involve County Councils (e.g. Bedfordshire, East Sussex, Gloucestershire, Norfolk and Northamptonshire) which have no involvement in services such as refuse collection and where consideration of services such as grounds maintenance and street cleansing are of lesser importance than with unitary councils in an urban setting (which Southampton is). In choosing two case studies for examination, therefore, we chose two where these issues are of importance: and where the two cases were different in terms of their scope i.e. as to which services are included, since this is the major focus of this report. We chose LB Harrow (where few ancillary services are included and where e.g. street cleansing and refuse collection continue to be delivered in-house); and Portsmouth (where the scope of the highways contract is wider and where there is no real culture of in-house service delivery).

3.2 The full notes of the case studies are included at Appendix 2; but in summary the key findings are, in relation to the brief under consideration:

- Neither contract includes for urban traffic control within its scope: and in both cases there seems to be a view that to do so would add more risks than benefits. At Portsmouth, urban traffic control is a service where political ownership is seen as distinctly important and to have priorities that cannot easily be understood within a general highways contract – although there is the view that with the now mature and successful arrangement, it might be possible to migrate the service to the contract. It is important to note that all of the specific reasons noted that drive the need for political ownership of this service at Portsmouth are all relevant to Southampton. At Harrow the decision to exclude the service was effectively made because of the need to co-ordinate the service through TfL: but the same comments were made in terms of retaining control of a strategically important tool, particularly in relation to emergencies. The same comments apply in relation to highways event management: and the concept of allowing the contractor to generate additional income through these (or allied) activities simply does not work. On that basis, and taking into account the findings of section 2, we conclude that both urban traffic control and highway events management should be considered as out-of-scope.
- Although the Portsmouth contract includes for grounds maintenance and street cleansing on the basis of ‘fence-to-fence’ responsibility, this does not, in fact, occur. It would appear that Portsmouth has never recovered from the decision (driven largely by CCT) to split up parcels of land according to use and ownership; meaning that, despite the best efforts of the highways contract, the problems noted in 2.11 above still occur: whereas although the Harrow contract does not include for e.g. street cleansing and grounds maintenance, Harrow does not suffer from these problems. The key, it appears, is not whether or not the services are formally included in a contract or not: it is whether the Council has a firm control on activities such as grounds maintenance and cleansing across all land and can co-ordinate this with

highways activities. Since the answer to the first of these in Southampton is yes, we would suggest that it is almost certainly easier and less risk to coordinate the two arrangements than to parcel them into a comprehensive highways contract.

- Neither case study gives any logistical reason for including Planning and Sustainability or Environmental Health and protection (nor, if we had not already excluded them, refuse collection or parking enforcement).
- Neither case study gives a clear reason as to whether third party liability claims should be included or not, since each case is different: but they point to the fact that there is more likely to be a case for inclusion if the scope of the contract is extensive (mirroring what some of our interviewees said).

4.0 CURRENT SERVICE DELIVERY

- 4.1 A final consideration in relation to the inclusion or exclusion of certain services within the scope of the Project is that of the way that they are delivered currently – in terms of arrangements, outcomes, standards and value-for-money. It goes beyond the size and scope of a report such as this to carry out a base-level investigation: and instead we have drawn upon information that has been provided for us, supplemented with our prior knowledge of services as delivered within the Council plus specific interviews with Council officers.
- 4.2 The first point to make, before considering services individually, is that – in contrast with a number of other authorities but in common with a few others – Southampton City Council has a strong culture of in-house working and to a generally high standard. The impact of CCT in the 1990's saw many councils outsourcing operations: and a number of in-house organisations that survived CCT have also been outsourced under Best Value. Those that still exist tend to be relatively efficient; and have also often successfully managed to re-merge the 'client' and 'contractor' roles that were imposed by CCT. We know, from work that we have previously carried out, that both comments apply to the in-house organisations at Southampton that deliver services such as refuse collection, street cleansing and grounds maintenance.
- 4.3 We have seen that potential suppliers have no appetite for including refuse collection or disposal within the scope of the Project; also our case studies support this stand. However, there is some desire among bidders to include activities such as street cleansing, graffiti removal, fly tipping, gulley cleansing and grounds maintenance services (including highway verges and trees) within the Project; also the Portsmouth case study includes for all of these, although the Harrow case study does not. To finally inform the decision, then, we examine each in terms of current delivery standards, costs etc.
- 4.4 A further point worthy of note at this stage is the Council's focus on neighbourhood involvement: and whatever decision is taken as to the scope of the Project, the Project's contractor needs to be involved in neighbourhood consultation – particularly since many of the issues raised in such exercises are directly related to highways e.g. pot holes, traffic (congestion, rat runs), parking (plus crime-related matters such as theft from vehicles) and planned maintenance (include advance warning).

Street cleansing

- 4.5 Southampton has a national reputation for high street cleansing standards, which are widely reported in the media (local television, CIWM publications etc) and the relevant performance indicators bear this out. The BV199 scores for 2006/7 were 6.3 (BV199a), 6 (BV199b), 0 (BV199c) and 2 (BV199d). In comparison the scores at Portsmouth were 11, 6, 0 and 4 respectively; at Brighton and Hove 17, 2, 1 and 1; at Reading 13.5, 22, 2 and 4; at Bournemouth 14, 10, 1 and 2; at Poole 13, 0, 3 and 1; at Plymouth 14.1, 4, 0

and 3; at Medway 13.7, 6, 1 and 1; at Milton Keynes 17, 8, 3 and 1; and at Bristol 17, 5, 1 and 3. Southampton is a much cleaner authority than these comparators, particularly for litter; and we note that Southampton's scores have been checked (on various occasions) by ENCAMS.

- 4.6 The Council's Divisional Business Plan covering this service notes that Audit Commission figures highlight that Southampton is "*a high quality, low cost service and has very clean streets for comparatively low cost*" It also notes a high degree of satisfaction with the service (71%) putting Southampton in the top 25% of all local authorities.
- 4.7 To achieve high performance, high satisfaction and low cost for this service area (which includes dealing with fly tipping) is no mean feat: and there has been continuous improvement since the current arrangements were put in place in 2000. Including such a service in the scope of the Project makes no obvious sense in terms of the potential for service improvement – indeed, including it carries a huge risk that the new arrangements might perform worse than the current ones (meaning that the contractor's focus could then shift from the prime purpose of the Project, improving the highways infrastructure).
- 4.8 Those interviewed as part of the Portsmouth case study suggested that the inclusion of street cleansing was sensible since it improved their standards: but the fact is that even those improved standards do not stand comparison with those currently achieved at Southampton. A further comment made in relation to the Portsmouth case study was that including the service meant that there was then no cause for argument as to whose responsibility cleansing of certain items of litter was: but the integrated approach adopted as part of the current in-house operation at Southampton delivers this already: it is not a problem that needs fixing.

Grounds Maintenance

- 4.9 One of the major achievements in Southampton for this service area is to have all land uses (highways, parks, housing, schools, leisure, open spaces, cemeteries etc) maintained by one operator to defined service standards. It is the case in Southampton (and other situations) that different land uses frequently abut each other (e.g. highways and housing land) and separating out these arrangements (see e.g. the Portsmouth case study) will give rise to unsatisfactory maintenance standards which cause customer dissatisfaction and an increase in complaints, as well as diseconomy.
- 4.10 As with street cleansing, the current service performs well. The Council's Divisional Business Plan covering this service notes that "*Satisfaction with parks and open spaces in Southampton is the highest in our family group whilst cost per head is one of the lowest*". Achievement of such a situation is important for the Council; particularly since around 20% of the City area is green space managed by the Council.
- 4.11 As with street cleansing, including such a service in the scope of the Project makes no obvious sense in terms of the potential for service improvement and

including it carries a huge risk that the new arrangements might perform worse than the current ones (meaning that the contractor's focus could then shift from the prime purpose of the Project, improving the highways infrastructure).

Trees

- 4.12 Although included within the grounds maintenance services above (as is e.g. verge cutting) some particular comments on trees may be helpful. There are around 60,000 trees in Southampton and all Council trees are deemed to be covered by TPOs. Of these 60,000 trees, some 20,000 are highways trees; while a further 5,000 affect the highway (typically overhanging it).
- 4.13 The Council has a risk management system in place that manages all trees: it also has a 'cradle to grave' process for tree management aimed at maintaining the green canopy (important in terms of responding to climate change) including a 'two for one' policy. As with general grounds maintenance and street cleansing activities, we feel that there is little to be gained by passing this area of activity to the Project contractor: and indeed some risk, in terms of diluting focus. The Project contractor would, however, be required to construct tree pits (after consultation re design, tree types etc).

Gulley emptying

- 4.14 This activity is delivered by the same operational section that manages street cleansing, grounds maintenance etc; and uses two machines, each using a driver plus mate. In the grand scheme of things, the service is relatively low cost; and largely self-contained (with the exception of cover for absence). We have noted that contractors would argue strongly for inclusion of this service within the scope of the Project: but the in-house team would argue for its exclusion, partly because of the economies regarding absence cover but more particularly because of the current arrangements for 'deep cleaning' whereby certain areas of the City are routinely cleansed in total (including gulley cleansing) having first been cleared of parked cars. The in-house team acknowledges, however, that co-ordination with the Project contractor regarding 'deep cleaning' is necessary in any case (partly concerning removing parked cars and partly because the Project contractor could well be involved e.g. in cleaning traffic sign).

Co-ordination / Interfaces

- 4.15 Quite apart from the co-ordination noted above in relation to 'deep cleaning' there needs to be co-ordination in a number of other areas. A good example is in relation to winter maintenance (the Project contractor may be responsible for salting / clearing carriageways; but the in-house team will need to salt / clear footways and pedestrianised area, and sharing e.g. salt seems sensible. Another is in relation to the design of streets so that cleansing is facilitated; another in terms of cleansing very busy sections of road, including central reservations; and another in terms of moving, storing and re-siting street furniture during construction. There is also the need for the Project contractor to be involved in neighbourhood consultations as described in 4.4 above: and

clearly there would be significant advantage in terms of joint use of databases etc (where the in-house team favours 'piggy-backing' onto the Project contractor's system).

5.0 CONCLUSIONS AND RECOMMENDATIONS

Scope of the Project

- 5.1 In terms of the activities originally identified as in-scope, we believe that questions need to be asked in relation to the inclusion of urban traffic control. Some contractors have concerns as to its inclusion: whilst the case studies also argue for non-inclusion.
- 5.2 It is perfectly possible to include all of the services listed as possible: but current service delivery (in terms of outcomes, standards, costs and the ‘fence-to-fence’ responsibility within Neighbourhood Services) argues against the inclusion of highways verges and trees, street cleansing, grounds maintenance and graffiti removal; and the exclusion of these may make the inclusion of third party liability claims less attractive to bidders (although this could be retained as the one variable in terms of the services discussed as part of the Competitive Dialogue).
- 5.3 The in-house team would argue for the exclusion of gulley emptying and of fly-tipping: but there are arguments for including these. In terms of the former contractors argue that the cost is fairly low in relation to the total contract (and rates are readily available and competitive); but the implications for a highways maintenance contractor (in terms of damage to the structure if the service is not carried out adequately) are out of proportion. We have some sympathy with this view: and provided the highways contractor can co-ordinate with the in-house team for ‘deep cleans’ (where there is in any case a need to co-ordinate in terms of moving parked vehicles) we think the case for exclusion is stronger than that for inclusion (and inclusion also helps to stop the highways contractor damaging gullies by filling with excess maintenance materials). In terms of the latter, they argue that rapid clearance of fly-tips on the highway is essential to traffic flows: but, provided service standards etc can be agreed, we see no reason as to why the in-house team cannot continue to deliver this service.
- 5.4 We see no clear case at all for the inclusion of any of the services originally noted as out-of-scope, except for maintenance of parking surfaces.
- 5.5 In terms of a recommendation, we offer the following thoughts:
Original table

In-scope	Possible Inclusion	Out-of-scope
Highway planned and routine maintenance	Bridges and structures design and works	Street-lighting
Highway Capital Projects	Third Party liability claims	Parking
Highway management functions	Highways verges and trees	Refuse and waste disposal
Traffic signs	Street cleansing	Planning and Sustainability
Traffic signal maintenance	Gulley cleansing	Environmental health and protection
Urban traffic control	Fly tipping	Highway events management
Business Support	Grounds maintenance	
	Graffiti removal	

Recommended table

In-scope	Possible Inclusion	Out-of-scope
Highway planned and routine maintenance Highway Capital Projects Highway management functions Traffic signs Traffic signal maintenance Business Support Bridges and structures design and works Gulley cleansing Parking surfaces	Third Party liability claims Urban traffic control	Fly tipping Grounds maintenance Graffiti removal Highways verges and trees Street cleansing Street-lighting Parking enforcement Refuse and waste disposal Planning and Sustainability Environmental health and protection Highway events management

5.6 Turning back to the criteria from the brief listed in 1.6, we offer the following commentary:

Achievability and deliverability of the project:

- Does the inclusion of these services contribute to the objective of the partnership? Yes, we can see from all three sources (i.e. industry consultation, the case studies and reference to in-house services that this is so.

- Does the inclusion of these services contribute to or diminish the focus of the partnership? By concentrating on activities that are purely highway related and need improvement, the Project will be focussed; including other services that perform well (e.g. street cleansing and grounds maintenance) will almost certainly focus the Project on areas outside the main driver for the Project.

- Does the inclusion of these services impact on the deliverability and achievability of the project, given resources and timescales available? Again, by concentrating on activities that are purely highway-related, in effect reducing the areas for which procurement activity is required, the Project is more likely to be successfully implemented within the required timetable: it is worth noting that resources for procuring e.g. typical street cleansing and grounds maintenance services for an authority of this size will typically cost £150,000 and take 15 to 18 months.

- Does the inclusion of the service increase the contract management resources post-service commencement? By not including the services listed there is (obviously) a lesser demand upon resources than if they were included; further, the Council's successful merger of 'client' and 'contractor' roles in e.g. street cleansing and grounds maintenance services would have to be re-examined were these services to be included.

Commercial considerations:

- Does the inclusion of the service improve the attractiveness of the contract to the market? It could be argued that, from a purely commercial standpoint, contractors would prefer some services (e.g. street cleansing, grounds maintenance, fly-tipping) to be included; but excluding some other services e.g. parking enforcement, refuse collection and including e.g. gulley emptying, is largely as requested by the majority of interviewees.
- Does the inclusion of the service alter the core market? Not really – all interviewees would be interested in this sort of package; however, including some services that we have excluded or deemed possible for exclusion (refuse, third party liability claims) would diminish market interest.
- Can the service generate income for the partnership? From the Portsmouth case study this concept is seen as a high risk strategy.
- What is the risk/reward balance of including the service? This can be most clearly seen in relation to the argument for including gulley emptying and for seeing third party liability claims and urban traffic control as only possible inclusions; and has informed our recommendation.

Current service delivery:

- How is the service currently delivered? The current high standards delivered by Neighbourhood Services in street cleansing and grounds maintenance (plus allied areas) have clearly informed our recommendation.
- Impact of statutory responsibilities? Can they be delegated/split? We believe our recommendations should not raise any concerns here: but this may be a factor that determines the ultimate inclusion / exclusion of third party liability claims.
- What are the effects on the retained services? We believe that our recommendations retain the high service standards and do not challenge resource requirements significantly (although, for this to be fully successful will demand good co-ordination between the Project's contractor and the in-house team (as well as with the client).
- Is the service tied into any other contracts and what is the impact of terminating/opting-out of that contract? The major decision here is in relation to the exclusion of street lighting, given the separate PFI procurement; another (although the decision is also driven by the desires of potential contractors) is in relation to waste disposal (Southampton is part of Project Integra).
- Does the inclusion of the service fit-in with existing/forthcoming strategies and agendas (service, division, directorate, council, local, regional, national)? We believe our recommendations should not raise any concerns here: but local policies may be a factor that determines the ultimate inclusion / exclusion of urban traffic control. Additionally, to meet Council priorities demands input

from the Project's contractor in activities such as neighbourhood consultation as well as co-ordination (as described above).

Financial considerations:

- Does the current service deliver VFM service (performance vs. budget)? This is, as explained above, a prime driver in recommending the exclusion of street cleansing and grounds maintenance.
- What is the scope for making efficiency gains from the existing services (unit costs etc)? As above.
- How can the Council ensure that a seamless service is delivered both with services included and with other services retained by the Council? This is an absolutely key requirement in terms of co-ordination plus other factors such as consultation, as described above. While it could be argued that including services would enable the service to be more seamless, it should be noted that the Project's contractor may well sub-contract some services; and there is no logical reason as to why this could not be as well (if not better) achieved by co-ordination with in-house services. Keeping e.g. grounds maintenance as an integrated whole rather than sub-dividing (see Portsmouth case study) is also a driver in terms of our recommendations. Co-ordination between services, whether part of the Project or not is very important and should not be overlooked as part of this process.

Other matters

5.7 Finally, the following matters, although no part of the brief, have been discovered during this exercise:

- We are sure, from our discussions with contractors, that the Competitive Dialogue is the appropriate procurement process.
- While we are not recommending the inclusion of e.g. street cleansing and grounds maintenance within the scope of the Project, they must interface with the Project and there must be good co-ordination. This calls into question the relationship between these in-house services and the Project and the appropriate arrangement needs to be considered. We believe that the idea of a Joint Venture has merits, particularly in terms of continuing to deliver high standards.
- Branding of services is key (see e.g. the LGA's Reputation project) and the City Council needs to ensure that the Project's branding primarily focuses on the City Council's image and not that of the contractor.

APPENDIX 1 – DETAILS OF CONSULTATION EXERCISE

May Gurney – John Cann, Business Development Manager

- Not interested in interim contract but very interested in this project.
- Believe Capital Works, Bridges etc should be included for Best Value – their current contracts (e.g. East Sussex, West Sussex, Norfolk) work best when this is the case: contractor is set up with base, skills etc – they see no case for limit on this.
- UTC / traffic signals – usually part of a partnership arrangement – e.g. MG use Siemens at Norfolk – and value in including on this basis; notes that where separate, Council has task of managing and co-ordinating two contracts rather than one (with increased costs).
- Street Cleansing – MG cleans streets e.g. after works, but doesn't actively operate in this area (although interested in expansion). We discussed Norfolk contract which has three partners, one of whom is the DSO that provides e.g. verge-cutting services (the other partners being Mott McDonald and MG). MG happy to work with DSO in this way at Southampton i.e. with DSO providing streets, grounds services – although issues of e.g. working times and pay differentials need to be considered (since staff from contractor and DSO would be working alongside each other). Another possibility is Joint Venture Company with DSO.
- Grounds including trees – as street cleansing above, although verge cutting is often managed direct by MG on current contracts or through local supply chain (i.e. small local contractors – from whom MG says good value can be obtained through long-term managed arrangements).
- Says items such as gulley cleansing are 'no-brainers' for inclusion, ditto traffic signs.
- Third party liability claims – said could be in or out, no strong views. Would welcome street lighting being included but understands the position with the separate PFI contract. Said MG would take on e.g. parking, waste if required (but when pressed couldn't give strong arguments as to why).
- Could TUPE in staff from local authority, has one so many times.
- Procurement process could be via competitive dialogue or traditional restricted procedure – depends on how clear Council is on what is needed – if Council is clear on outcomes but not quite how to get there, competitive dialogue would be appropriate, but this can be a lengthy process.
- Contract term of 7 to 10 years, with potential to extend would be desirable. If Joint Venture (as proposed at Torbay) with DSO, needs to be 15 to 25 years.

- MG keen to keep dialogue going – would offer a further meeting to share experiences on procurement options and also a site visit to Norfolk to see how the partnership with the DSO works.
- Says a depot is important and also important that the Council owns this (in the Council's long-term interests)

Dyer and Butler – Bob Barlow and David Bailey (Business Development Department)

- General comment: high degree of interest in SCC's Highways works. Company feels they have a good relationship with the City over wide spectrum of works including major works at Southampton Airport and a good track record with highway improvement works.
D&B would assemble a consortium for this work – D&B as Prime Contractor with technical support from specialists. Management control of all works to reside with D&B. Company has extensive local infrastructure and workforce is mainly Southampton based.
- Highway planned and routine maintenance – Core activity, company able to offer high level of service, local, established, depot and workforce will all ease inward transition.
- Highway Capital Projects – Attracted to these activities. Would like to see limited exposure i.e. upper limit of £100 to £250k before going into conventional tender situation. For BAA the company already have an upper limit of £1.5m for 'framework' works. Company infrastructure already exists for works up to £100 to £250k. Extended teams to be formed for projects above agreed limit. Able to deliver this type of work to a very good standard without external support. Sensible views on basis of tendering for higher value works to deliver competitive value for money.
- Highway management functions: Traffic signs, Traffic signal maintenance – For temporary arrangements (i.e. road works infrastructure) the company already has a good stock and knowledge of the appropriate regulations. Both permanent and temporary signage should be included. Permanent traffic signal management should be included but on the basis of sub-contracting the technical 'bits' (i.e. controls and software) to someone like Siemens. Acknowledged potential difficulties with long-lead items for traffic signals requiring high level of contract management to avoid delayed works and disruption.
- Highway management functions - urban traffic control – Happy to include this in contract. Happy to provide management and operations of Control Room. Less happy about high-level maintenance of CCTV and Communications equipment as they have not been involved. OK with low level maintenance of CCTV (camera changes, camera lens washing fluid. Would not be unhappy if the function was excluded.
- Business support – company has a wide range of administrative and support function expertise including financial.
- Bridges and structures design and works – very interested to include design and construction. Design element would be sub-contracted to Dyer and Butler's consulting engineers, Giffords.

- Third Party liability claims – less interested in handling TP claims. Feel that this would be best left with the client using current insurance support.
- Highways, verges and trees – would definitely like to include this on a fence to fence basis: but when probed said works would probably be undertaken by a specialist sub contractor, so no direct experience. Could offer depot near Southampton or would consider Council's own depot.
- Street cleansing and gully cleansing – would like to see this included. Gully cleansing is not a specialist activity, although it requires specialist equipment and they would train up an in-house team. Not clear, however, as to direct experience of street cleansing or whether they have a full understanding of what this might mean in this context.
- Fly tipping – very keen to include this as part of a generalised reactive emergency service.
- Graffiti removal – probably undertaken by a specialist sub contractor on a reactive basis. Not a core Dyer and Butler activity. Lukewarm enthusiasm for this activity.
- Street lighting – if this was included they would probably sub contract this to a specialist partner. Company has a good E & M capability but does not stretch to street lighting maintenance. Lukewarm enthusiasm.
- Parking – flat car parks and multi-storey car park maintenance definitely within D & B's interest. Both maintenance and build possible. Parking enforcement – not interested.
- Refuse and waste disposal – not interested. Specialist activity but might consider facilities management of CA sites if Council desired.
- Planning and sustainability – strategic planning would be sub contracted to Giffords or others.
- Environmental health and protection – not interested.
- Highway events management – very keen to include this but principally because it was seen as good marketing opportunity.

Enterprise / Accord – Neil Meadows and Keith Martin

- Highway planned and routine maintenance – should definitely be in.
- Highway capital projects – should definitely be in. Might propose an upper limit to ensure value for money to the client. Limit might be £100,000.
- Highway management functions – traffic signs. To be included as part of Streetscene.
- Highway management functions – traffic signal maintenance. Would sub contract this to a specialist sub-contractor.
- Highway management functions – urban traffic control. Company has a specialist capability (in partnership with Mouchel) which undertakes this type of activity.
- Bridges and structures design and works – partnership with Mouchel undertakes civil engineering works on a national basis including feasibility, design and execution.
- Third Party liability claims – very interested, but depends how dealt with. Company already does this in Liverpool but needs control of budget to ensure that identified risks are properly addressed. This means that the contractor must be given some control over budgetary expenditure: without this, lukewarm interest.
- Highways verges and trees – very interested and would try to lead and achieve a high degree of integration with the current in-house workforce. Could integrate this with other GM works to provide a total GM service beyond fence to fence boundaries.
- Street cleansing – this is an area of particular expertise for Enterprise / Accord. Uses same logistical support to provide a broadband Streetscene service with very good value for money.
- Gully cleansing – as above
- Fly tipping – include this as the contractor will already provide a degree of reactive emergency service. This facet will not add significant extra cost to the emergency service. Similar equipment required as highways maintenance equipment.
- Graffiti removal – include as part of the duties of the reactive emergency teams. Also happy to join with local community on the basis of proactive consultation.
- Street lighting – Keen to include this. Company already offers this service to the Highways Agency in Areas 1, 3 and 11.

- Parking – car park construction and maintenance should be included due to use of existing equipment and workforce. Parking enforcement – not interested.
- Refuse and waste disposal – waste collection could be included. The company has very considerable experience as a leading refuse collection contractor on behalf of several WCA's. Waste disposal – not interested.
- Planning and sustainability – the company offer specialist support for one-off projects. Would be very happy to advise and assist the council with funding applications.
- Environmental health and protection – mainly provided by emergency team.
- Highway events management – keen to have this included.

Balfour Beatty Infrastructure Services – Tim Malyn

- Highway planned and routine maintenance – obviously very interested in this core activity. However, Balfour Beatty also offer considerable added value in this respect. The company have been involved in private equity investment schemes and are currently bidding for several at the moment. The company own a specialist subsidiary (Balfour Beatty Capital) whose services can be applied to this authority.
- Highway Capital Projects – very happy to include this up to the current maximum EU threshold of around £3.2m. Could also include follow on maintenance.
- Highway management functions – traffic signs. Keen to include this with erection, maintenance and cleaning.
- Highway management functions – traffic signal maintenance. Very keen. Company already does this elsewhere using mainly in house staff with a small proportion of sub-contract specialist trades.
- Highway management functions - urban traffic control – happy to provide control room operational management facilities. Less keen on high tech sub-systems, i.e. CCTV. Interested in non-specialist work in this area.
- Bridges and structure design and works – full capability in-house for this lucrative work.
- Third Party liability claims – not keen.
- Highways verges and trees – keen for this to be included.
- Street cleansing – said ‘absolutely essential for inclusion’
- Gully cleansing – same as above. Co-ordinated approach for maximum Streetscene impact.
- Fly tipping – reactive service to be provided.
- Grounds maintenance – if this is seen as an extension of fence to fence GM, i.e. using same equipment and manpower, then this should be included.
- Graffiti removal – this is part of a reactive service generally using non-specialist labour and equipment, a small holding of specialist equipment to be held in reserve (e.g. high pressure water jetting and remote access).
- Street lighting – inspection to be included with Streetscene inspection duties. Keen to include this within contract.

- Parking – car park construction and maintenance included. Would not object to undertaking parking enforcement (but only if absolutely necessary).
- Refuse and waste disposal – refuse collection is an activity that (the interviewee claimed) Balfour Beatty is currently tendering for and would be very keen to have this included (although we can find little evidence to support this claim and company has no current contracts). No disposal facilities available, i.e. exclude this.
- Planning and sustainability – company has assisted with the development of Local Transport Plans. Very keen to be involved in strategic planning.
- Environmental health and protection – could be included as part of reactive service. Balfour Beatty would keep in-house for non-specialist duties. Able to recruit health and safety staff when required.
- Highway events management – company is very keen to become involved in this. They managed the Tour de France in the UK on behalf of the Highways Agency and Westminster City Council.

Halcrow – Alan Cappell

- Highway planned and routine maintenance – include.
- Highway Capital Projects – prefers not to band levels based on value but £0.5m might be a sensible level.
- Highway management functions – traffic signs – to be included.
- Highway management functions – traffic signal maintenance – to be included.
- Highway management functions – urban traffic control – to be included.
- Bridges and structures design and works – design, construction and maintenance works up to £0.5 threshold.
- Third Party liability claims – this is acceptable and is already done with Colas at Portsmouth.
- Highways, verges and trees – these should be included on a fence to fence basis. Company not really orientated towards general grounds maintenance however and not specifically interested in this.
- Street cleansing – Streetscene issue for inclusion i.e. ‘fence-to-fence’ principle.
- Gully cleansing – Streetscene issue for inclusion.
- Fly tipping – Streetscene issue for inclusion.
- Graffiti removal – to be included within general Streetscene team effort. Very keen on community involvement to reduce occurrences.
- Street lighting – *(I may have misunderstood the interviewee’s responses. He seemed to imply that their contracting partner (Colas) already do this in Portsmouth).* Cappell seemed to want to include street sweeping.
- Parking – car park construction and maintenance should be included. Parking enforcement should be excluded.
- Refuse and waste disposal – excluded as a specialist issue with possible problems relating to depots and tipping facilities.
- Planning and sustainability – very keen to be involved as it is Halcrow’s philosophy that this is where value for money is created.
- Environmental health and protection – included as Streetscene activity.
- Highway events management – lukewarm approval for inclusion.

Colas – Graham Mook

- Highway planned and routine maintenance – included.
- Highway Capital Projects – company currently has a similar project for which an upper threshold limit of £2.6m is applied. Above this, client goes out to tender. If Colas are the lowest price then there is an agreement that the upper threshold is raised. This is an iterative benchmarking process to guarantee value for money.
- Highway management functions – traffic signs – include. Also provision of temporary traffic signs in support of incidents, wide load parking etc.
- Highway management functions – traffic signal maintenance – include. In Portsmouth Colas evidently offer a fence to fence highway inspection service which includes the highway management functions.
- Highway management functions – urban traffic control – very happy to undertake this work (but not essential that it is included).
- Bridges and structures design and works – Colas have a joint venture with Halcrow and Costain for major capital works. Halcrow undertakes the majority of the feasibility and design work. Extremely interested in this type of work.
- Third Party liability claims – could include. Portsmouth contract includes third party operations based on a performance specification contract. This works well and would not put Colas off.
- Highways, verges and trees – include.
- Street cleansing – *(during this part of the interview, the interviewee was distracted and responses were very limited. However, from Halcrow's input it is understood that Colas already undertake this type of work elsewhere with a high degree of success).*
- Gully cleansing – include.
- Fly tipping – include on a call out basis rather than proactive.
- Grounds maintenance – could include.
- Graffiti removal – include as call out only.
- Street lighting – include if this becomes available (this was queried).
- Parking – include construction and maintenance. Not interested in enforcement.

- Refuse and waste disposal – would consider this activity. An activity which Colas are currently considering becoming involved with (although no track record). Not waste disposal.
- Planning and sustainability – include on the basis that long term planning will be actionable during the life of the contract.
- Environmental health and protection – include.
- Highway events management – keen to include.
- Winter maintenance was raised – very keen that this should be included.

Amey – Dennis Martin

- Highway planned and routine maintenance – Amey have a number of companies which can be drawn into highways infrastructure projects on a variety of bases. These include Amey Infrastructure Services, Amey Tube Services, Amey Business Services and from April 1st Amey Local Government.
- The company usually operates within 3 partnership models, i.e. joint venture (80% Amey / 20% Local Authority client i.e. Torbay), MAC (Managing Agent Contract) or Term Maintenance Contract.
- Highway Capital Projects – include within contract. Company offers feasibility studies, public consultation, design and project management. Most major capital works are sub-contracted to preferred partners, i.e. Skanska or Costain. Minor works are normally done in-house. High level of contract management produces very good value for money. No upper limit within EU regulations.
- Highway management functions – traffic signs – included. Amey own 2 of their own sign workshops in Hereford and Cumbria.
- Highway management functions – traffic signal maintenance – The Company own a transport technology solutions department which does its own traffic signal works including design, software and installations. This also includes intelligent transport systems solutions
- Highway management functions – urban traffic control – Amey already do this in several areas including Plymouth and Bedford.
- Bridges and structures design and works – extensive design and maintenance capability. Design, specification, inspections and project management would be carried out in-house. Major works sub-contracted under Amey control.
- Third Party liability claims – very keen for this to be included. Contract initiation would include condition survey to be costed into the contract. Company has an extensive health and safety department with inspection capability. Proactive approach used. Insurance backed. Risk offset.
- Highways, verges and trees – To be included on the basis of an output specification to facilitate flexible services. Part of an integrated Streetscene orientated service.
- Street cleansing – as above.
- Gully cleansing – as above.
- Fly tipping – as above.

- Grounds maintenance – not specifically interested in non-highways GM.
- Graffiti removal – part of the above Streetscene issue.
- Street lighting – already involved in South Coast street lighting tender situation. Key interest to Amey.
- Parking – construction, maintenance and enforcement could be included in contract. Would try to use existing sub-contractors if appropriate. No interest in enforcement.
- Refuse and waste disposal – Amey are (re)developing an interest in waste collection and disposal and claimed to have recently acquired this expertise by way of an acquisition (Spanish?) and would be very keen on including waste collection and disposal in the contract to facilitate integrated street sweeping, gully cleansing and highways and verges services.
- Planning and sustainability – Amey have been involved at a very high level in local and regional strategic planning including road toll planning and implementation (M6 and London Congestion Charging).
- Environmental health and protection – could be included. Company has extensive HSE experience.
- Highway events management – keen for this to be included but would employ specialist events planners supported by in-house labour teams.

APPENDIX 2 – DETAILS OF CASE STUDIES

CASE STUDY 1 – PORTSMOUTH

Introduction

The Portsmouth Highways Management PFI Contract and Partnership was conceived following the City Council's 1999 best value review (BVR) of highways asset management. The BVR used a life cycle analysis and whole life costing approach to determine the most cost effective regime for management of highways assets. The BVR concluded that once the network has been brought up to an overall standard of at least good/fair proactive maintenance of the network, renewing and repairing at the optimum point in the life cycle curve is by far the most cost effective maintenance regime.

The big hurdle was how to fund getting the network up to standard and, following discussions with the Department for Transport (DfT) a PFI approach was settled on whereby a contractor would borrow funds for a five year core investment programme of renewals and thereafter be contracted for a further 20 years to maintain the network at a good to fair standard (measured by a bespoke network condition index and footways condition index). A unitary charge is made by the contractor on a monthly basis with step ups in payments as network condition milestones are achieved, deductions for poor performance and a system of service points for poor customer service which could ultimately lead to contract termination. The contract went live from 31 January 2005. The contractor is an SPV called Ensign Highways which is 50:50 owned by Colas SA and Colas UK. The unsuccessful tenders were Amey, Balfour Beatty and a Vinci led consortium. (Please note this latter information is provided in confidence).

The contract is based on the principle of the contractor having “fence-to-fence” responsibility for the highway network: i.e. maintenance and renewal of all highways assets that fall within the highway boundary is the responsibility of the contractor. In fact there are two exceptions to this – arboriculture (see below) and bus shelters where a different form of contract was in place based on use of advertising revenues to fund maintenance which the PFI contractor did not win in a separate procurement 2 years into the PFI contract.

Other principles that apply are:

- Renewals are on a like for like basis unless otherwise agreed (i.e. there is no gold plating or upgrading in the basic spec).
- Inclusion of non-highways assets in the highway (e.g. fountains, art etc) were considered on a case by case basis with affordability being the prime criterion.
- Structures are included for day to day maintenance but are excluded where a major structural repair (valued over £100k) is required.

- Upgrading or enhancement works can be undertaken by the PFI contractor on a call off basis with a pre-agreed schedule of rates. A procurement strategy has been agreed for such works to save on procurement costs and is described below.
- A change mechanism allows changes in the network to feed through either into up front “commuted sum” payments to the contractor or changes in the unitary charge to cover maintenance liabilities over the life of the contract. The commuted sums or changes to unitary charge can be negative as well as positive which strongly incentivises a whole-life costing approach to design and materials used on the network.
- The contract is specified on outcomes (network condition, cleanliness measures etc) and is largely self policing through the banks’ monitoring arrangements with only spot audits from the client team in the City Council. External auditing of network condition and footway condition is also undertaken.
- The PFI contractor also manages use of the highway by third parties (e.g. statutory undertakers, events, advertising, mobile phone masts etc) and keeps the income from this use up to a specified limit above which it is shared with the City Council.
- Liability for third party claims rests with the PFI contractor.

A complex matrix for risk sharing was put in place for peripheral issues (e.g. energy or bitumen where in both cases price risk remains with the City Council but usage risk lies with the contractor. Thresholds are set for contractor liability for changes in standards and insurance for material damage to the network.

Where the City Council agrees a change in specification (e.g. use of higher and fewer lighting columns or use of black-top instead of slabs on footways) the change mechanism is invoked and/or a mechanism for sharing the savings is agreed. There are also targets in the contract for use of recycled materials.

What’s in and what’s out

All assets within the highway boundary are included except major structural repairs, bus-shelters and some non-highway structures. The table below summarises the position for the items in the table in the Southampton City Council scope assumptions:

Item	In or out?	Comments
In scope (in SCC table)		
Highway planned and routine maintenance	All included	This is the core of the contract and was previously contracted out to Amey. All risk lies with the contractor. Leads to very high quality customer service e.g. if a pothole is

Item	In or out?	Comments
		<p>reported by a member of the public to the City Helpdesk, they simply instruct the contractor to undertake the repair and there is a fixed timescale in the contract for the PFI contractor to do so. Because the contractor has already been paid regardless of how many potholes require repair, no decision needs to be made by the City Council on affordability. This incentivises the contractor to maintain the network well to minimise the need for such repairs.</p>
Highway capital projects	Partly included	<p>These projects were previously procured individually. A new procurement policy is now in place as outlined below to minimise overheads.</p> <p>Works valued under £250k are given to the PFI contractor as of right.</p> <p>Works valued at £250k-£1m are given to the PFI contractor except that 1 in 10 is tendered competitively. If the PFI contractor does not win the work that is tendered then all works valued over £250k are thereafter tendered until the PFI contractor consistently submits the winning tenders after which the 1 in 10 rule resumes.</p> <p>All works valued over £1m are automatically competitively tendered.</p>
Highways management functions	Mostly included	<p>These functions were previously managed in house.</p> <p>The statutory Network Manager remains with the Council so while management of statutory undertakers etc is done on a day-to-day basis by the contractor there is a need for regular liaison and in some cases approval by the network manager. This arrangement works well.</p> <p>Most highways licensing is done by the contractor (e.g. building overhangs, skips etc) and they keep the income.</p>
Traffic signs	All included	Design was previously managed in house and works were contracted out on a call-off basis.
Traffic signal maintenance	All included	Design was previously managed in house and works were contracted out on a call-off basis.
UTC	Not included	This remains the responsibility of the City Council traffic management team largely because

Item	In or out?	Comments
		<p>Portsmouth is prone to large scale disruption due to perturbations from events, flooding or accidents on the principal entry and exit routes and Members prefer management of such events/incidents to be directly controlled by the City Council. The UTC is now combined with the Parking enforcement control room to give long hours of coverage. The contractor has clearly specified response roles such as emergency signage and routing, closing flood gates etc</p>
Business Support	Partly included	<p>The customer relationship management IT system is jointly operated by the contractor and the City Council but is owned and maintained by the contractor. This proves to be the most efficient and effective way of managing the system.</p>
Possible inclusion		
Bridges and structures	Partly included	<p>Design and inspection were previously handled in house and works were contracted out on a case by case basis.</p> <p>All day-today inspection and maintenance is included as are repairs valued at less than £100k. Repairs over £100k are deemed major structural repairs and excluded. When a major structural repair is declared responsibility and liability for the structure (except for day to day maintenance) is handed back to the City Council until the major structural repair has been completed.</p>
Third party claims	Included for all assets included in the contract.	<p>Previously responsibility lay with the City Council.</p> <p>This strongly incentivises the contractor in terms of maintenance quality and responsiveness and claims have reduced dramatically as a result. This is a significant risk to transfer and could probably only be achieved where a major renewals/core investment programme is planned which tends to point to a PFI or quasi-PFI arrangement.</p>
Highways verges and trees	All included	<p>The pre-existing arboriculture contract let by the leisure department was novated to the PFI contractor unchanged. There are obligations on the PFI contractor to maintain the overall number of trees in the highway and they are incentivised by their liability for third party claims to maintain tree and tree pits well and opt for species of trees</p>

Item	In or out?	Comments
		that pose lower risk (e.g. that don't drop fruit onto footways).
Street cleansing	All included	This was previously contracted out to Amey. Works really well, although see notes below of grounds maintenance. Each street is cleaned twice a week (once on waste collection day and once in between) and each receives a regular deep cleanse.
Gulley cleansing	All included	This was previously contracted out to Amey. These are now done at least annually. Liability for claims for flood damage due to blocked gullies lies with the contractor.
Fly-tipping	Included	This was previously contracted out on a call off basis. Removal of fly-tips on highway land is included in the contract. Removal of other fly-tips is done by the contractor on a call-off basis. Leisure and Asset Management use the call-off contract but Housing sometimes do and sometimes don't. Response times are agreed on a risk assessment basis – risk to life highest, no risk to life or property lowest. The fact that non-highway fly-tips are dealt with on a call off basis or by other contractors/DLO in the case of Housing land does cause a problem for customer service and perception – highways fly-tip removals have the same customer service advantages as the pot-holes example given above but call-off fly-tip removals do not because it needs someone else in the City Council (the budget holder) to instruct the PFI contractor rather than the City Helpdesk.
Grounds maintenance	Largely excluded	With a few negotiated exceptions on Housing land, grounds maintenance is excluded from the contract (and contracted out by leisure and housing to different contractors or managed in house) and causes major difficulties. It is important to coordinate the timing of street cleansing or maintenance of verges where there is a border with other council owned land so that, for example, litter doesn't just blow between the two or so grass is not cut a very different times or frequencies etc. Different standards of cleanliness apply which the public do not understand and which has a significant impact on BV199

Item	In or out?	Comments
		outcomes. Members hate the fact that different contractors deal with adjacent parcels or strips of land and in some cases it is very difficult to ascertain who should be responsible. I strongly suspect that substantial economies of scale are to be had from including all grounds maintenance and non-highways cleaning operations in the same contract but there are always substantial cultural and territorial barriers within councils to achieving this.
Graffiti removal	Partly included.	This was previously contracted out on a call off basis. This is included for highways land but not for other council land, structures and buildings. This has the same customer service and other problems as highlighted above under grounds maintenance and fly-tipping.
Out of scope		
Street-lighting	All included	This is a core and substantial element of the Portsmouth contract and depending on the condition of the street lighting can strongly affect affordability positively or negatively. Lighting in non-highways areas was not included.
Parking	Not included	Lining and signing for parking is done by the PFI contractor on a call-off basis. We can see no advantage in include parking control and enforcement in such a contract – it is far too political to transfer on a PFI basis.
Refuse and waste disposal.	Not included	Again we see no advantage in including this or indeed collection. However, there is a need for coordination between waste collection/disposal and street cleansing which works well in Portsmouth (N.B. collection uses sacks, not wheeled-bins, making this more of an issue).
Planning and sustainability	Not included.	Again we see no advantages in doing so, although some incentives for reduced carbon footprint can and should be included in the contract.
Environmental health and protection	Not included	We see no advantages in doing so

Item	In or out?	Comments
Highways events management	Partly included	See comments on UTC above – the highways contractor has specified responsibilities e.g. in coordinating statutory undertakers, deploying signage and route management, emergency response, publicity management and cleansing.

Other lessons learned

Other than the positive and negative lessons learned described above, the following more general lessons have been learned in the first two and a half years of operation of the contract:

- Sort out the change mechanism in detail and communicate it well to all staff as soon as it is agreed. Portsmouth built up a huge maintenance liability for enhancements prior to the contract commencing. There need to be links to development control and planning obligations policies in this respect as well.
- The self-policing, self-auditing ethos of the contract works well.
- Keep a large enough client team to deal with the residual contract management and policy functions in the council. Experience in Portsmouth is that around 8 people are needed (two technical, two engineers, two commercial and two admin).
- Continuity of personnel on both sides (contractor and client team) from the bidding phase, through mobilisation and into the operational phase pays massive dividends in solving the inevitable early disputes and changes in spec as things settle down.
- Transferring responsibility for generating (and keeping) third party income to the contractor does not work – issues such as mobile phone masts and advertising on the highway are too politically contentious. In Portsmouth this was done for affordability reasons but it was a false economy and has proved to be the only real source of tension in the partnership.
- The contract strongly incentivises innovation in materials, methods and design which has proved to be very beneficial to both parties.
- There was initially a sharing of risk on the extent of usage of the network by HGVs (more HGVs triggers higher charges). This was dropped early on as unworkable.
- The risk of reduction in funding from DfT remains with the council as the council is locked into the contract for 25 years this has proved to be a substantial risk. A long term contract makes it more difficult for savings to be made quickly e.g. just by deciding not to do certain works. Savings have to

come through innovations and changes in specification which can take time to negotiate (though they can be substantial in magnitude). There is limited scope for reducing specification because this can fundamentally change the risk balance and in Portsmouth's case that would impact on the balance sheet treatment and hence PFI status which is what attracted the extra funding from Government (in PFI credits).

CASE STUDY 2 – LB HARROW

Procurement strategy and objectives

In June 2006 the London Borough of Harrow commenced a highways maintenance partnership with Accord MP who were subsequently acquired by Enterprise Ltd. The contract duration is 5 years extendable by 2 years by agreement.

The in-house highways team, including engineers, numbers around 34 staff and the Accord partnership team numbers around 15 staff.

LB Harrow did not conduct a full blown best value review of highways maintenance prior to deciding on the scope and structure of their highway partnership arrangements. The process they adopted was described as follows:

- “piggy-backing” on analysis and review work undertaken by other London Boroughs (in the time available we were not able to obtain details of those studies);
- a process of market testing (jointly with other London Boroughs) to determine a short list of potential contractors with whom LB Harrow could work to scope the proposed partnership further and to gain an better idea of market interest/appetite; and
- a full blown ITT based competitive procurement amongst the contractors on the shortlist. LB Harrow was unwilling to disclose the identities of the unsuccessful bidders.

Prior to commencement LB Harrow had 22 separate contracts for aspects of highways maintenance, renewals and enhancements which they considered to be highly inefficient and bureaucratic. The perception at least, was that the contractor was driving the jobs undertaken rather than the other way around. Nonetheless, performance (measured through BVPIs) was generally good (most BVPIs showed performance in the first or second quartiles). The driving force behind the procurement strategy was, therefore, to rationalise these contracts into one umbrella contract with one contractor who would then be responsible for managing the supply chain for the delivery of individual services. The twin aims were to improve efficiency (the impression I gained was that this was the primary objective) and to improve performance.

Some supply chain sub-contractors were identified in the tenders and others left to subsequent decisions. LB Harrow has approval rights over which sub-contractors can be used and allows flexibility over changes to the list.

The contract is structured using a basket of quality and quantitative measure (KPIs). A 2% pa cashable efficiency saving target is built into the contract with penalties against the contractor if it is not met. There are also targets around specific BVPIs and non-cashable efficiency savings. Payment deductions are made against the contractor if KPIs are not met. There is no structured risk transfer in the arrangements

and work is almost all carried out on a call-off pay-go basis (the contract includes an agreed, pre-tendered schedule of rates for all disciplines, presumably with provision for that to be revised from time to time). There are some fixed price payments for elements such as winter management/maintenance and emergency call-out, which implies some small element of risk transfer.

Funding

The contract is funded through LB Harrow's LTP grant settlement and significant capital programme contributions from LB Harrow's corporate capital reserves (in 2007/8 and expected in 2008/9).

Performance to date

LB Harrow's assessment of performance to date is that it has greatly improved efficiency, particularly for LB Harrow's internal 'bureaucracy'. The view is that there is still room for improvement and that the partnership still has a bit of a 'client and contractor' feel to it. In general, design is the domain of LB Harrow's in-house engineering team and delivery is the domain of Accord and the supply chain sub-contractors although there is a considerable grey area in that simplistic analysis. A positive result of the arrangements has been that LB Harrow's in-house engineers now have much higher job satisfaction and are more productive as a result. The reason for this is that they have become more generalised and so get a greater variety of work to undertake and also get to see more jobs from initial design through to completion.

LB Harrow considers that jobs are now implemented much faster by the contractor with concomitant benefits to network management and congestion. It is too early yet to see the results of this feeding through into BVPI performance (which is a source of some political discomfort).

The biggest teething troubles have been around IT, largely to do with impervious firewalls not allowing access by contractors to LB Harrow's network. LB Harrow use (and maintain) EXOR for responsive works management and Enterprise use and maintain their own Network Manager software.

While contractor performance on physical works is, as described above, very good, some aspects of the contractor's administration procedures have been shaky and remedial actions are in place.

Contract scope

The table below summarises, for the LB Harrow partnership, the position for the items in the table in the Southampton City Council scope assumptions. The contract scope has remained stable and LB Harrow are generally happy with it – they describe it as "almost spot on" (not surprising given the objective to rationalise 22 existing contracts but otherwise to leave the philosophy of the contracting arrangements largely unchanged). The contract does envisage the possibility of changes to scope in either direction and a change mechanism is provided for to deal with such alterations.

The only element that has so far been removed from scope is that of street name plates. LB Harrow has its own distinctive design for street name plates and there is only one supplier of the design that they specify. It therefore made little sense to work through a “middle man” in the form of the partnership contractor and this element was therefore removed from the scope of the contract not long after commencement. LB Harrow is also in the DfT’s street lighting PFI programme and therefore expects to carve street lighting out of the scope of the contract if and when they implement a new PFI arrangement for street lighting.

Item	In or out?	Comments
In scope (in SCC table)		
Highway planned and routine maintenance	All included	This is the core of the contract and was previously contracted out. Unless otherwise stated below the service in question was previously contracted out to a different contractor (through one of the pre-existing 22 contracts referred to above).
Highway capital projects	All included	
Highways management functions	Excluded	These functions, including all aspects of network and traffic management, are managed in house, led by the statutory Traffic Manager. LB Harrow does not operate a permit system (and never have).
Traffic signs	All included	See above for exception regarding street name plates.
Traffic signal maintenance	N/A	Responsibility of TfL
UTC	N/A	Responsibility of TfL
Business Support	Excluded	See comments above regarding IT.
Possible inclusion		
Bridges and structures	All included	
Third party claims	Excluded	No risk transfer to contractor other than the usual indemnities for claims arising from the contractor’s works or errors.

Item	In or out?	Comments
Highways verges and trees	Partly included	<p>Construction of new highways verges/tree pits is included in the scope of the contract – indeed LB Harrow have a programme of moving verges to the back of the footway to reduce damage from parking (interestingly this has led to greatly reduced maintenance costs as householders tend to take informal responsibility for verges at the back of the footway and maintain them themselves). Contracting out this element allows LB Harrow to take a comprehensive look at the whole street scene which was more difficult previously with fragmented contracting arrangements.</p> <p>Maintenance of verges and trees remains the responsibility of the DLO in Public Realm Services (which is in a different portfolio) – essentially the DLO does all grounds maintenance.</p> <p>While politicians recognise the budgetary constraints, verges and trees are, in common with most councils, a politically contentious issue.</p>
Street cleansing	Excluded	This is dealt with by the in house Public Realm Services DLO.
Gulley cleansing	All included	
Fly-tipping	Largely excluded	This is dealt with by the in house Public Realm Services DLO. The exception is emergency response which is covered by the emergency response rota operated by Accord.
Grounds maintenance	Excluded	This is dealt with by the in house Public Realm Services DLO.
Graffiti removal	Excluded	This is dealt with by the in house Public Realm Services DLO.
Out of scope		
Street-lighting	All included	There is no TfL network within LB Harrow. See comments above re the potential street lighting PFI.
Parking	Works included,	Lines and signs and equipment (such as parking meters) are covered by the highways partnership

Item	In or out?	Comments
	enforcement excluded	arrangements. LB Harrow has a DLO for enforcement.
Refuse and waste disposal	Excluded	
Planning and sustainability	Excluded	
Environmental health and protection	Excluded	
Highways events management	Excluded	Planning and management of events are dealt with through the in-house network management team. The partnership is contracted on a call-off basis to provide event related services such as barriers, banners, bunting, traffic management etc

Other lessons learned

Generally the transition to the new arrangements has gone well although some general lessons have arisen as follows:

- Continuity of personnel on both sides (contractor and client team) from the bidding phase, through mobilisation and into the operational phase pays dividends in solving the inevitable early disputes and changes in spec as things settle down – continuity of understanding helps. The bid team on the Accord side quickly left to other projects which has caused some difficulties.
- A relentless focus on people issues is essential. LB Harrow found that post-implementation they had a number of people in the wrong roles which caused difficulties – people management is all important.
- LB Harrow had the misapprehension that somehow Accord’s staff would all be wonderful but, while they are doing a good job, they have the same variation in skills, experience and ability as any other organisation and are not “superstars” any more than the in-house team.

