



<u>Committee and Date</u>
CABINET
19 th October 2016

Highways & Environment Term Maintenance Contract Re-procurement

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Commissioning Manager**

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1. Summary of Report

- 1.1. The current Highways Maintenance Term contract (HMTC) expires at the end of its full contracted six-year term on 31st March 2018. The option to extend for a further four years will not be exercised. Shropshire Council (SC) and Ringway have mutually agreed this.
- 1.2. This report focuses on the proposed delivery model and arrangements from 1st April 2018 onwards for Highways Term Maintenance. This report attempts to position the service and the Council to participate in a sector that has an evolving market place, to reflect the changes to service pressures, strategic drivers of change and the ongoing financial pressures that the Council face.
- 1.3. This report proposes a delivery model utilising a Term Service approach with the appointment of a single contractor delivering the highways and environmental maintenance services, and the purpose of this report is to discuss the rationale for this approach and the influences that informed this decision.
- 1.4. During 2015 and 2016 a variety of research, methods and evidence-based processes were utilised in order to inform the process, to identify the most appropriate model going forward. A series of workshops, visits, discussions, early contractor involvement (soft market testing) and market research exercises were undertaken with the highways maintenance providers, suppliers, clients, local authorities, industry bodies and small and medium providers.
- 1.5. As part of the preparation process (fully detailed within this report) five key strategic drivers have been identified that currently, and will continue to, drive the service:
 - Customer satisfaction
 - Asset network condition
 - Local engagement
 - Modernisation
 - Value for money

- 1.6. A robust procurement project timetable has been developed to ensure the robustness of this project ensuring that a sufficient mobilisation period is guaranteed with the incumbent contractor (attached at Appendix 1). This will be overseen by a Shropshire Council accredited Project Manager.
- 1.7. The development of a One Council approach - in order to be as effective as possible, it is recognised that we need to work, commission and deliver services as efficiently as possible and maximise the opportunity for efficiencies and abilities to work with Town and Parish Councils, particularly in relation to local grounds maintenance arrangements.
- 1.8. The Highways Service is subject to reducing budgets. Therefore, reductions or cessation in volumes, standards, specifications, frequency of works and service requests is inevitable, and will need to be achieved to meet the financial pressures.
- 1.9. The UK Public Contract Regulations were amended in 2015, procurement rules now allow wider factors to be considered by the authority when evaluating the formal bids received, which will support the increased robustness of the evaluating exercise.

2. Recommendations

It is recommended that Cabinet agree to:

- 2.1. Approve the re-procurement of the Highways and Environmental Maintenance Services using a Term Service Model as set out in this report**
- 2.2. Delegate authority to the Head of Infrastructure and Communities, in consultation with the Portfolio Holder for Highways and Transport to undertake the procurement process, including approving the terms of the contract, service specification documentation and associated decisions necessary to undertake the entire procurement process, prior to a final award report to appoint a Contractor being presented to Cabinet in 2017.**
- 2.3. Delegate authority to the Head of Infra structure and Communities in consultation with the Portfolio Holder for Highways and Transport to assess and implement future reductions in standards, volumes or specification, a possible cessation of some service requests will be required in order to meet the financial savings within the current Financial Strategy (revenue and capital), with their undoubted impact on Asset Condition and Satisfaction indicators.**
- 2.4. Delegate authority to the Head of Infrastructure and Communities, in consultation with the appropriate Portfolio Holder(s), to discuss with Town and Parish Councils grounds maintenance responsibilities in respect of public open spaces, amenity land, play areas and where appropriate highway land, and further to those discussions, to amend**

the ground maintenance arrangements for inclusion in the procurement process as appropriate.

- 2.5. Cabinet notes that the proposed procurement of a Term Maintenance Model, will support budget assurance and minimise strategic risk for the Council in delivering its operational and statutory functions.**

Report

3. Financial Impact

- 3.1. The implications arising from the re-procurement include the costs of contractual preparation, human resources advice, pensions advice, and legal advice, for example. At present, the project costs are estimated to be in the region of £500,000, profiled over two years (2016/17 and 2017/18).
- 3.2. Use of reserves has been agreed for expenditure incurred within 2016/17, and will be considered for 2017/18 over the coming months.
- 3.3. The Highways Service is subject to reducing budgets: The capital grant from the Department for Transport (DfT) is forecast to reduce significantly over the next four years, by approximately £4m (reports previously submitted to Cabinet in 2015 and 2016). £500,000 revenue savings are required, in accordance with Shropshire Council's Financial Strategy, and revenue budget pressures of a further £500,000, will require the Highways Service's budget to reduce.
- 3.4. The effect on annual term maintenance contract expenditure is a forecast combined (capital and revenue) reduction in expenditure from £20.2m to £17.9m. Therefore, while the Council will continue to meet its statutory requirements, reductions in volumes, standards, specifications, frequency of works and service requests are inevitable, and will need to be achieved to meet the financial pressures. Cabinet are asked to delegate authority to the Head of Infrastructure and Communities, in association with the Portfolio Holder for Highways and Transport, authority to assess and implement proposed reductions. The requirement to reduce expenditure will be embedded into contract specifications and documentation, and will be consulted upon as appropriate.
- 3.5. Cabinet should note that, although at present forecast expenditure with the term maintenance contractor is approximately £20.2 million, the Council's contract only contractually commits the Council to a minimum spend of £10million per annum. It is proposed that this approach is replicated in the new contractual arrangement to ensure flexibility for the Council.

4. Drivers for Change

- 4.1. The proposed delivery model needs to identify and consider how strategic drivers can be accommodated with the service outcomes in the future, in order to meet the changing market and react positively to the financial

pressures affecting the service, but ultimately to deliver services as efficiently and effectively as possible in Shropshire. There are a number of key strategic drivers that will continue, or are forecast to emerge over the life of the new arrangements. These will influence future delivery of a re-procured service. The key drivers were developed with a cross section of colleagues from across Shropshire Council and by external facilitation in various workshops, in order to anticipate and understand the external environment influencing the re-procurement.

- 4.2. **Modernise** - The new service arrangements need to be in place and operational from 1st April 2018. It has been recognised that the Highways market has evolved since 2012, with aspects such as technology, continued public sector restrictions on finance, increased customer expectations and nationally (from Department for Transport) increased focus on improved asset management. The opportunity to confront and where possible take advantage of these aspects is critical under the new arrangement. Thus, service redesign and change of operational model for centralised work preparation and delivery are underway at the time of writing this report, which has identified the need to restructure and realign posts to meet new requirements and demands of an Asset Management and Intelligent Client service.
- 4.3. **Customer Satisfaction** – Customer Satisfaction with Highways and Environment in Shropshire remains relatively high (source: NHT Survey 2014 - 2015), which places customer satisfaction higher than the average for all highway authorities by residents participating in the survey. The downward pressure on budgets (both capital and revenue) i.e. less available financial resources, will inevitably affect satisfaction as the volume of work reduces on a year on year basis. Members should note that in the 2016/17 financial year, significant revenue and capital budget reductions have influenced upon service delivery, therefore a reduction in future satisfaction is inevitable. Cabinet should note that satisfaction is a key indicator in the current Corporate Plan.
- 4.4. **Asset Condition** – historically, the asset condition has experienced gradual condition deterioration, however, in recent past years, with higher levels of government capital funding the network, condition has improved to neutral, (i.e. not improving or getting worse). However, over time, as available budgets decline, it is inevitable that the network condition will return to gradual deterioration as Highways attempt to arrest the decline of the network. There is an accepted link to funding and network condition. It is vital that any delivery model maximises investment into the network, whilst managing the budget pressures.
- 4.5. **Value for Money** – The medium to long-term financial situation continues to be challenging and a key driver will be the continual demonstration of effective and efficient spend of highway budgets. Highways is one of the most visible, perception forming, geographically spread and demand led services the Council delivers, and constant challenges on the prioritisation, selection and investment decisions are a constant for the service in terms of local justification. A simple but well managed model, with good systems

and processes is essential to invest funding and deal with the demand pressures on the service.

- 4.6. **Local engagement** – the Highways Service continues to receive continued service demands (increasing traffic growth, increased housing development pressure with inevitable increases in infrastructure roads, pavements, signs, street lights, street furniture), along with customer expectations of the service. This requires further efforts to provide improved quality of information through social media, established communication channels and traditional planning and briefing of statutory and non-statutory consultees. Improvements in ‘on-line information’, such as work and programme schedules and blogs are providing pro-active sources of information and are available now on the Council’s web site.
- 4.7. **Council wider considerations – Local Councils and Grounds Maintenance** - In order to be as effective as possible, it is recognised that we need to work, commission and deliver services as effectively as possible and maximise the opportunity for efficiencies. Hence, there is opportunity for the new highways re-procurement to provide mechanisms within its arrangements for wider Town or Parish Councils to commission services, either directly or by moving services to a single managing body to provide advice and guidance to assist in delivering services as efficiently as possible.
- 4.8. In the preparation of this report, consideration for further integrated work with Town and Parish Councils has been considered, to ensure the procurement develops a One Council approach; typically, this is in relation to Grounds Maintenance (amenity grass cutting only). Highway verges will remain in the contract, due to the Health and Safety legal requirements. Intrinsic to this report and the procurement process will be the ongoing discussions with Town and Parish Councils around any possible future arrangements in respect of Grounds Maintenance services with local partners.
- 4.9. Cabinet will be conscious that work across the county to assist Town and Parish Councils, supporting Shropshire Council and the associated grounds maintenance responsibilities have progressed well. A number of Town and Parish Councils have stated that they wish to undertake grounds maintenance and detailed discussions are being conducted in respect of the methods by which this could be achieved.
- 4.10. However, the finalisation of these arrangements has an obvious link with the report as presented to Cabinet. The new highways procurement will be dependent upon clear commitments from Town and Parish Councils in order to exclude any such arrangements from this procurement and minimise administration and provide clarity on the service information being provided by the Council in the tender process.
- 4.11. Therefore, the recommendation 2.4, is intrinsically linked into the procurement model, and approval of the recommendation will ‘smooth’ the process going forward.

4.12. Further, the Council acts either as a provider or a client to other services and service providers within and external to the Council, and future arrangements and discussions will need to be undertaken, for example:

- ST&R Housing
- Elections
- Emergency response
- Outdoor Recreation (direct and indirect delivery)
- Supporting Rights of Way
- Tree Safety
- Town and Parish Councils
- Public events
- Third parties (schools etc.)

5. Preparation approach, process and Governance

5.1. During 2015 and 2016, internal and external discussions and facilitated workshops with Shropshire Council staff, Portfolio Holder and Mouchel were undertaken. External visits and discussions were held with other local authorities, service providers and external advisors in order to determine the most appropriate model going forward.

5.2. The work can be summarised as:

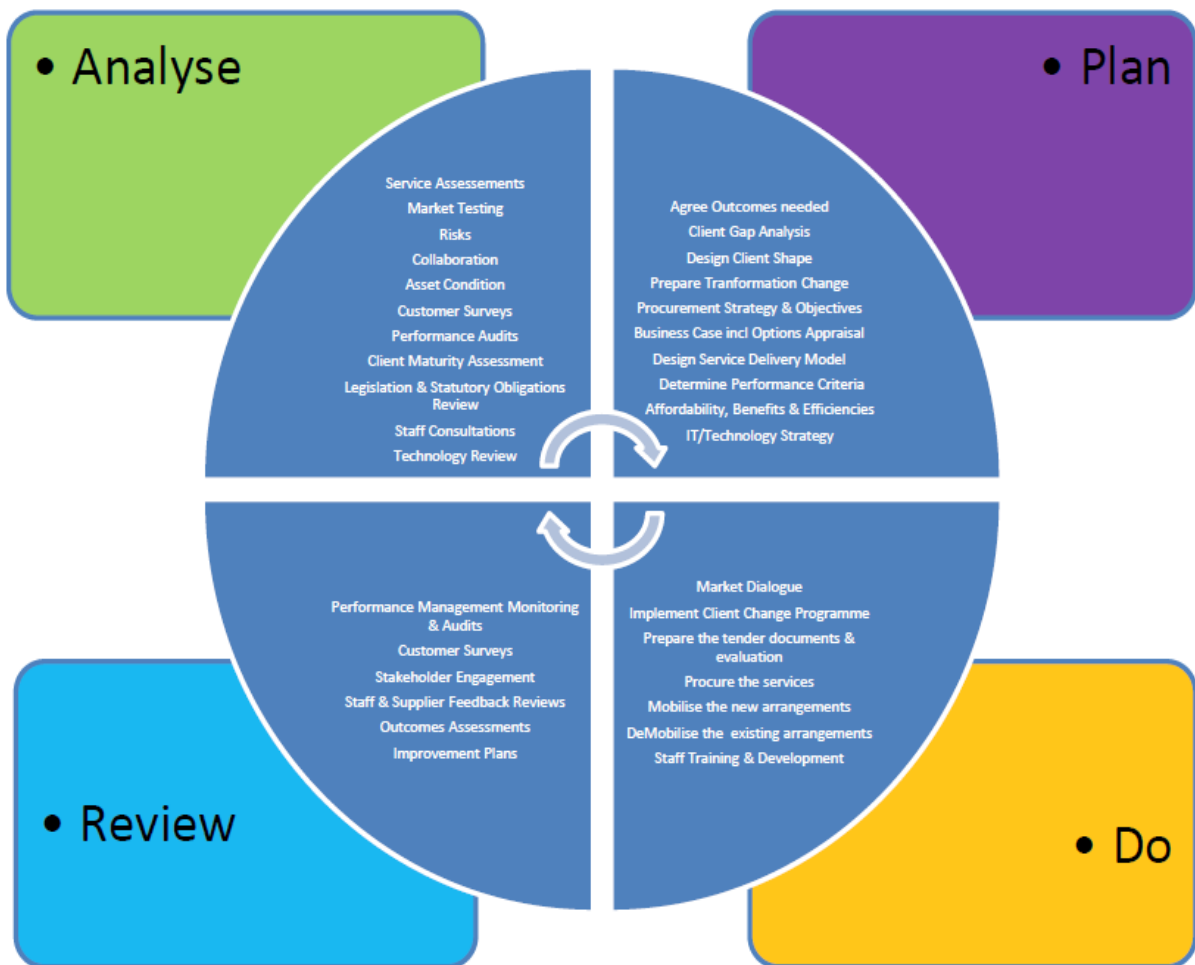
- Financial workshop and discussions on models (internal).
- Externally facilitated workshops with a range of partners and colleagues (finance, transport planning, development control, highways management, street scene, legal, procurement) present across the Council to discuss the risks, benefits and issues in the proposed arrangements.
- Member's briefing and information session(s)
- Service objective workshop with colleagues and Portfolio Holder.
- On-line staff survey of service model – soft market testing (internal).
- Soft market testing with the highways maintenance industry (external) - further the outcome of the soft market testing was that the Term Maintenance approach would be more favourable to the market. **See Appendix 1 for the Soft Market Testing Report.**
- Individual 1:1 discussions with fifteen different organisations, i.e. national term maintenance providers and small to medium supply chain providers – (external).
- Questionnaire and survey placed on the Association of Public Service Excellence (APSE) members' feedback – (external).
- Discussions with Legal, Procurement and Human Resource – (HR advice).
- Discussions with Highways Managers and our Commissioning Consultants - Mouchel.
- Discussions with authorities following similar models or experience of recent procurement, such as Herefordshire, Wrexham, Hertfordshire etc.
- Engagement of Local Partnerships (a not for profit company working for the Local Government Association and Department for Transport) to provide a peer challenge to the rationale, logic and approach used in the

authoring of this report and interviews across all areas of Shropshire Council (Officers and Portfolio Holder).

- Internal staff consultation on the draft report.

5.3. In progressing the re-procurement, ongoing discussions, workshops, use of external support and ‘market testing’ have identified the key issues (see Figure 1 below), to determine the outcomes required for future services and key options for consideration. The ‘analysis’ phase of the model, i.e. ‘What needs to be achieved?’ identified the following issues or ‘gap analysis’.

Figure 1



5.4. The model identified areas of work to be analysed, in order to shape outcomes for future services and inform future delivery. The summary of the analysis is given below, (in no particular order or priority):

- Shropshire Council as a Highway Authority has a statutory duty to maintain and manage the highway network in a safe a usable condition and specifically this principle applies to all decisions affecting policy, priority, programming and implementation of highway works.

- Shropshire Council provides services in a number of ways to manage and maintain the highway network that includes:
 - Roads
 - Footways
 - Cycleways
 - Bridleway
 - Public rights of way
 - Footpaths
 - Verges
 - Trees
 - Hedges
 - Ditches
 - Gullies
 - Street scene
 - Vehicle workshops
 - Bridges
 - Tunnels
 - Culverts
 - Retaining walls
 - Underpasses
 - Signs
 - Lines
 - Street lighting
 - Illuminated signs and bollards
 - Roadside electronic displays
- These services are currently delivered through the existing term maintenance contract with Ringway. Current contractual expenditure is estimated to be approximately £20.2 million per annum. Taking into account current internal financial pressures and reducing DfT capital grants, it is forecast that available budget will reduce to £17.9m over the next four years. Shropshire Council may be subject to a 25% reduction in capital grant by 2021, if Level 3 certification is not achieved by 2018.
- Road condition in Shropshire has improved recently, moving from gradual decline to neutral - not improving or declining. (National Indicators 168 & 169), however budget restrictions will have an undoubted negative impact in the future, in terms of anticipated reduced satisfaction levels and gradual deterioration of the road network.
- Highways has an improving understanding of what our assets are, where they are and their condition and the levels of investment required to adequately maintain or improve their condition, and this will continue to improve over time. There is more to be done, but the trajectory of travel is correct.
- The National Highways and Transport Survey 2015 assessed Shropshire as high satisfaction, medium quality and low cost.
- The level of third party claims is relatively low when compared to some other authorities, currently at 95% repudiated (part 2016 figures).
- Resident satisfaction with highways is above average (NHT Survey 2015)
- Potholes, drainage and road safety improvements are consistently the most frequent issues reported by the public.
- Media Coverage is generally more negative about highways than other Council services, and volume of coverage has increased compared to other services, due to the demand led nature and scale of the service.

- The service has matured over the last 5 - 10 years with Client Maturity self-assessed as Level 3 – Managed Overall, but moving to level 4 – Executive.
- Asset, Contract and Performance Management competencies are improving greatly and Asset Management is improving in its maturity in Shropshire. Shropshire is currently a Level 2 Authority within the Department for Transport incentivised funding criteria, with an aspiration of achieving Level 3 by 2018, and currently on course for achievement.
- External capital budgets from the DfT are forecast to reduce over the short and medium terms. Undoubtedly, this will impact upon Asset Condition and Satisfaction in the medium term, and require reductions in specification, volumes, standards or possible cessation of some service requests
- Greater savings & efficiencies could be generated through packaging work together and a lump sum payment option for routine services to enable the provider to spread risk across 'fixed' cash flow.
- The new operating model allows for greater flexibility and financial management and will allow for efficiencies. However, it requires increased management and partner support to be effective in respect of coordinating discrete packages of work, potentially managing differing contracts, contractors, operational and overhead costs, either directly or via Mouchel
- Although collaboration is likely to offer the best opportunities for efficiencies generally, local authorities in the region are not ready for a full range of joint services at this stage. However, discussions with neighbouring authorities in respect of advantages from an existing procurement framework that potentially may generate some procurement savings are still being worked though and no final position has been reached at the time of writing this report.
- Market providers' preference is for a minimum contract duration of 7 years to effectively manage their costs, particularly around investment in fleet and plant.
- The supply market is smaller than 10 years ago but it offers a broader range of services (including traditional client services) and it is more capable.
- Technology developments offer realistic operating efficiencies and improvements.
- Reducing the number of technology and process interfaces between the client and the providers is likely to provide some of the most significant opportunities for efficiencies, i.e. giving more control of end-to-end processes, with the ability to identify and resolve defect and other network issues directly to the provider. This supports the use of a term maintenance arrangement.

- There is the opportunity to develop, or transfer local services for Parish Councils and other community groups to 'support the services provided by the Council through its main providers, i.e. top up services, parish lengthsman scheme etc.
- Some services are better value when delivered by local enterprises, i.e. tree maintenance, hedge cutting and cleaning of drains and ditches.
- All market providers sub-contract work, particularly specialist, high investment works such as carriageway surfacing.
- There is an opportunity to develop a much stronger relationship with sub-contractors (who are often local companies) and offer them the same relationship and terms and conditions as the main provider
- Most of the services delivered by the main contractors are through a local workforce either directly employed or through local sub-contractors and therefore retain the Shropshire £.
- Shropshire Highways and Transport will require a re-structure to ensure that it positions itself to manage the new Term Service Provider. Revised posts and disciplines will be required in order to ensure delivery of the contractor's operational, commercial, risk and statutory responsibilities. All staff are briefed and preparations to re-organise our approach are fully understood by staff.

6. Corporate Priorities and Indicators of Success

6.1. In understanding what the requirements are for future services, it is important to understand the current corporate objectives of Shropshire Council.

- **Healthy people** – a key requirement of the Corporate Plan is a clean and attractive environment.
- **Prosperous economy** – a key requirement within the Corporate Plan is Road Condition Results and National Highways and Transport Survey
- **Resilient communities** – a key requirement within the Corporate Plan is Keeping Shropshire Clean (NI195).

6.2. The current Corporate Plan for 2015/16 incorporates three key measurements for Highways:

- NI 195 results (Street Scene)
- NHT Survey results (Satisfaction and Service Analysis)
- Road Condition Indices

In light of this, following workshop sessions and discussions with a cross section of staff from all council disciplines, Shropshire Highways have set the following as key success criteria for the future highways re-procurement, i.e. midway through the new arrangement (2021), what will success look like?

- **Maintain customer satisfaction** level at 54% by 2021, although an interim decline is anticipated as the reduction of available budgets manifests itself (source NHT Survey, How Satisfied or Dissatisfied Question).
- **Maintain Network Condition Indicators** by 2021 at current levels, allowing for a managed deterioration of indicator due to budget reduction. (National Indicator NI168 /169) 13% and 2% respectively.
- **Demonstrate value for money** (Annual Benchmark and NHT Survey) – Total Cost Ranking (£/km)
- **Increase local engagement** (Annual Internal Survey)

6.3. All the above will be subject to the base line of 2015/16 service outcomes for comparison by 2021. The indicators should allow for a new model and reduced budgets to have a negative short term impact, however, a recovery midway through the new arrangement should be sought and are detailed in the following table:

Customer services	Maintain customer satisfaction from the base line of the 2015 NHT Survey, Question 2 of 54%. Higher than average satisfaction of the service over the average of the new arrangements by 2021.
Maintain network condition	Maintain the condition of principal and non-principal roads accordingly to NI168 by 13% and NI169 by 2%, by 2021, allowing for an initial decline and then recovering. Maintain repudiation rates of third party insurance claims at 90% or above.
Value for money	Maintain the low cost, medium value of the service as identified by the 2015 NHT survey, and achieve a similar externally assessed conclusion in 2021.
Local Engagement	Increase local engagement through communication via 'real time' project updates on the highways works web page and greater focus on social media. Measured in Question 11b of the NHT survey at 24%.

6.4. Adoption of this Success Criteria will allow in 2021, (mid-way point of the new arrangement) a retrospective review of whether the procurement exercise and contract have achieved their stated objective.

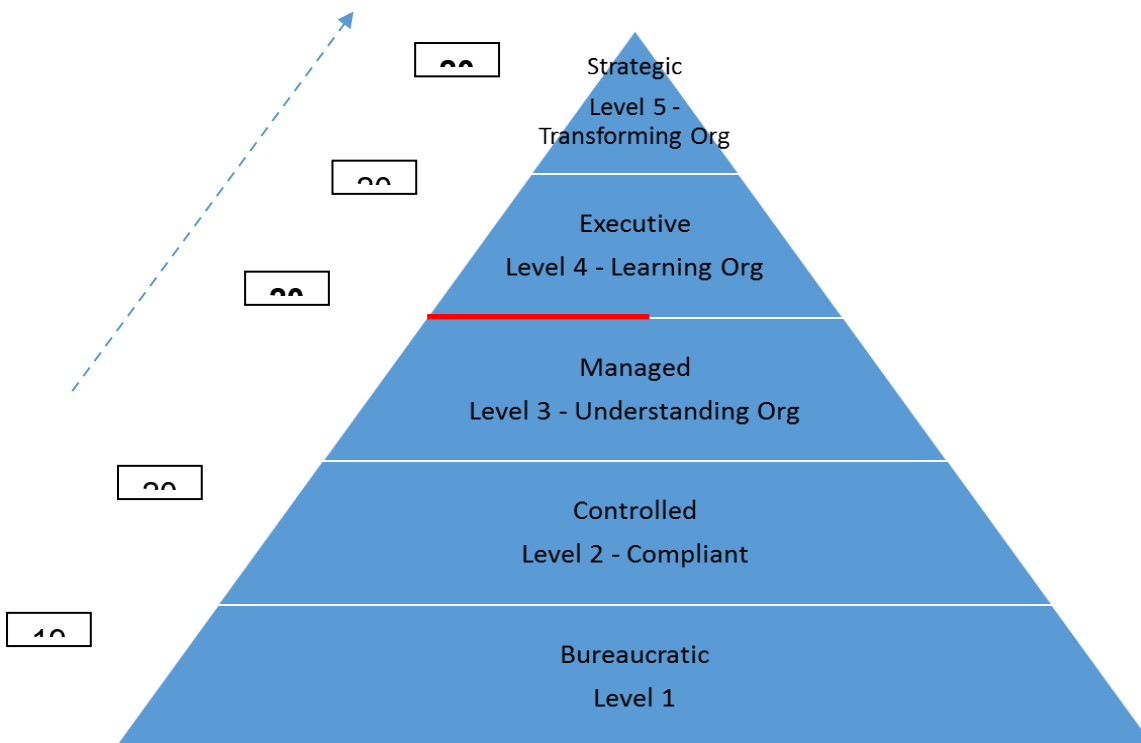
7. Options for the Service Delivery Model

7.1. In considering the capability of the organisation to deliver the future service model and the outcomes required, an assessment of Highways' capabilities and competencies has been undertaken using an internally self-assessed Business Excellence Maturity Model. This assessment illustrates where Highways is now and what needs to be done to progress to being a strategic client in the future. The red line in figure 2 below shows where Shropshire is at present. The assessment has enabled the project team to design a proposed client shape to deliver the new services effectively and efficiently.

7.2. The model assumes:

- Highways will be a Level 3 (highest level) managed authority, according to DfT criteria and verified by internal audit.
- Service balance of low cost, medium quality, high satisfaction will continue
- Full programme of staff development will be concluded:
 - NEC Service Manager Accreditation Training Validated by Institute of Civil Engineers (ICE)
 - Adept Training,
 - City & Guilds
 - Project Manager Training

Figure 2 Client Maturity Model



- 7.3. This model illustrates the 5 levels of an organisations maturity; it shows the journey Shropshire has travelled to get to its current position of a Managed service (Level 3) with their current Term Maintenance Contract (TMC). Given the implementation of new service arrangements, they can continue this journey toward level five through developing the intelligent client skills, knowledge and capability to achieve this either at the next procurement opportunity in 2023 or construct a position during this procurement cycle to step up once certain milestones have been achieved and capability proven.
- 7.4. Therefore, the current process is a transitional step towards an 'integrated entity', where a service vehicle is formed of client and contractor - key partners who work through one sole 'arrangement' to deliver services. This model is being adopted more in other public procurements, such as the water industry, and the transition of the authority towards this arrangement is the intended future arrangement for implementation.
- 7.5. The time line on the left of the pyramid illustrates the progress over previous contracts to where Shropshire is now and illustrates maturity model levels as stepping-stones to the top level of Strategic Client. This is a 'thin' client organisation responsible for strategy, policy and compliance. All other services are managed by a single or combined supplier organisation. To achieve this, a staged development approach is included in the procurement options and the journey to achieve this by 2019 is underway, by ongoing improvements in how Highways is structured and formed.

7.6. Desk Top Review

A desktop review of existing models has been undertaken with a combination of conversations, and site visits to various local authorities in order to galvanise thoughts. The models reviewed were:

- Term Maintenance Contract - Local authority manages the procurement and management of numerous service providers covering the full range of highways services.
- Multiple Term Partnering Contracts - Core maintenance contract including winter service and reactive maintenance with a number of specialist contracts engaged directly by the Council.
- Integrated Highways Contract - A strategic client sets policy, strategy and monitors performance. An infrastructure expert contractor joins with a design, engineering and management consultant to deliver the integrated contract.
- Managing Agent Contract (MAC) – High level, small strategic client only. Contract uses a single provider combining the managing agent and contractor roles: brings expertise, investment and efficiency; trusted with significant levels of responsibility.

- Alliance Contract – The ‘Alliance’ is between a ‘strong’ client; a consulting services contractor; and a contracting services contractor. Fully integrated organisation includes client and provider staff at all levels working together, sharing risks and targets equally.
- PFI Contract - High-level strategic client with outsourced, fully integrated contract to plan, deliver and fund all works for 20 – 30 years.
- Shared Service Contract - Joint venture of a regional group of authorities to deliver services and single programmes of work across the whole region using term and framework contracts.
- Direct Labour Organisation - In-house provision of services including planning, network management and highways operations and maintenance. Larger capital schemes delivered by discrete contracts.

7.7. Having reviewed several types of highways contract, the Working Group considers that the future highways contract should:

- result in high quality works and excellent value for money,
- use a set of KPIs that provides a balance between ‘carrot and stick’ provisions; but defined at contract start,
- provide a clear line of communication for Members to report problems and receive information, especially accurate estimates of action and timescales for defect reporting; and
- benefit the local economy.

7.8. Further desktop research on the various models in use by other highways authorities has been carried out and a summary of these are listed below, to provide an overview and look for similarities in outcomes.

- **Model A - Direct Labour Organisation (DLO):**
In-house delivery of strategic planning, highway network management and highways operational services. Organisational arrangements can be integrated or via a discrete internal network managing client with DLO operational delivery. Minor capital works are usually delivered via discrete contracts, framework arrangements or term supporting contracts and major capital works delivered by discrete tender or framework. Design services can be maintained in-house, supported via discrete design partners or fully out-sourced.
- **Model B - Managing Client / Designer / Term Maintenance Contractor (TMC):**
Strategic, network and asset managing client. Term contract or framework designer employed to carry out feasibility studies, maintenance and improvement scheme designs and supervision. The client also takes varying levels of design and supervision responsibility. TMC carries out all routine and capital works to a financial threshold.

Major discrete schemes over a threshold contracted out or via framework.

- **Model C - Strategic Client / Managing Agent / TMC:**
Strategic client sets policy, strategy and monitors performance. Consultant as Managing Agent manages network and asset, advises on and implements policy and strategy, designs and supervises capital maintenance and improvement solutions. TMC carries out all routine and capital works to a threshold. Major discrete schemes over a threshold contracted out or via framework.
- **Model D - Managing Client / TMC+:**
Strategic, network, asset and programme managing client. Outcome based integrated service provider designs and delivers all routine maintenance and capital works to a financial threshold. Major discrete schemes over the threshold contracted out.
- **Model E - Managing Agent Contractor (MAC):**
Strategic client with network, asset managing and designing outcome based integrated services provider to a threshold. Typically, major discrete schemes over a threshold (generally £500k to £1m) are contracted out.
- **Model F - Highways PFI:**
High-level strategic client. Service provider plans, delivers and funds all routine and capital maintenance for 25/30+ years with improvements delivered at an early stage through an initial core investment period and maintained over the duration of contract. Government approval is required for this model and there is no current funding available for this.
- **Model G - Devolved Governance**
Recent devolved governance to authorities such as Greater Manchester and the West Midland Authority, have seen that transport and infrastructure budgets are being 'pooled' and support via the DfT Incentivisation Scheme to support these authorities by awarding them Level 3, provides a new model similar to the Transport for London model.

7.9. Summary of Findings

- Risk - loss of knowledge, skills and cost control if commercial and performance management capability is not well developed and in place to avoid the issues being encountered, as is the case by some of these authorities who are now looking to increase and improve their client capability.
- The client shape must be structured to best manage the contract model chosen.

- Asset, Commercial and Performance Management capability must be developed to ensure the chosen contract model delivers the desired outcomes and give the Council the assurance it needs.
- Market is well placed to deliver a wider range of services
- Clients are generally smaller organisations but smarter, with more traditional client services managed by the contractor

7.10. Constraints and Interfaces

Shropshire Council will need to undertake a significant re-model of the Highways and Transport Service, to make the proposed arrangements work effectively and efficiently and ensure the client structure supports the new model with retrained staff, focusing on the skills and abilities required in contemporary contract management.

7.11. Service Delivery Model Options

Using the outcomes set out in the previous sections (critical success factors, strategic drivers), and following the evidence harvested from:

- Soft market testing
- Staff workshops
- Local Partnership facilitated workshop and peer challenge
- Client maturity analysis
- Industry analysis
- Key issues for the service
- Advice from Mouchel (SC’s consultants).

The options considered, which would all utilise the NEC Term Service Contract Framework to support budget assurance, commercial management and minimise the Council’s strategic risk are detailed below.

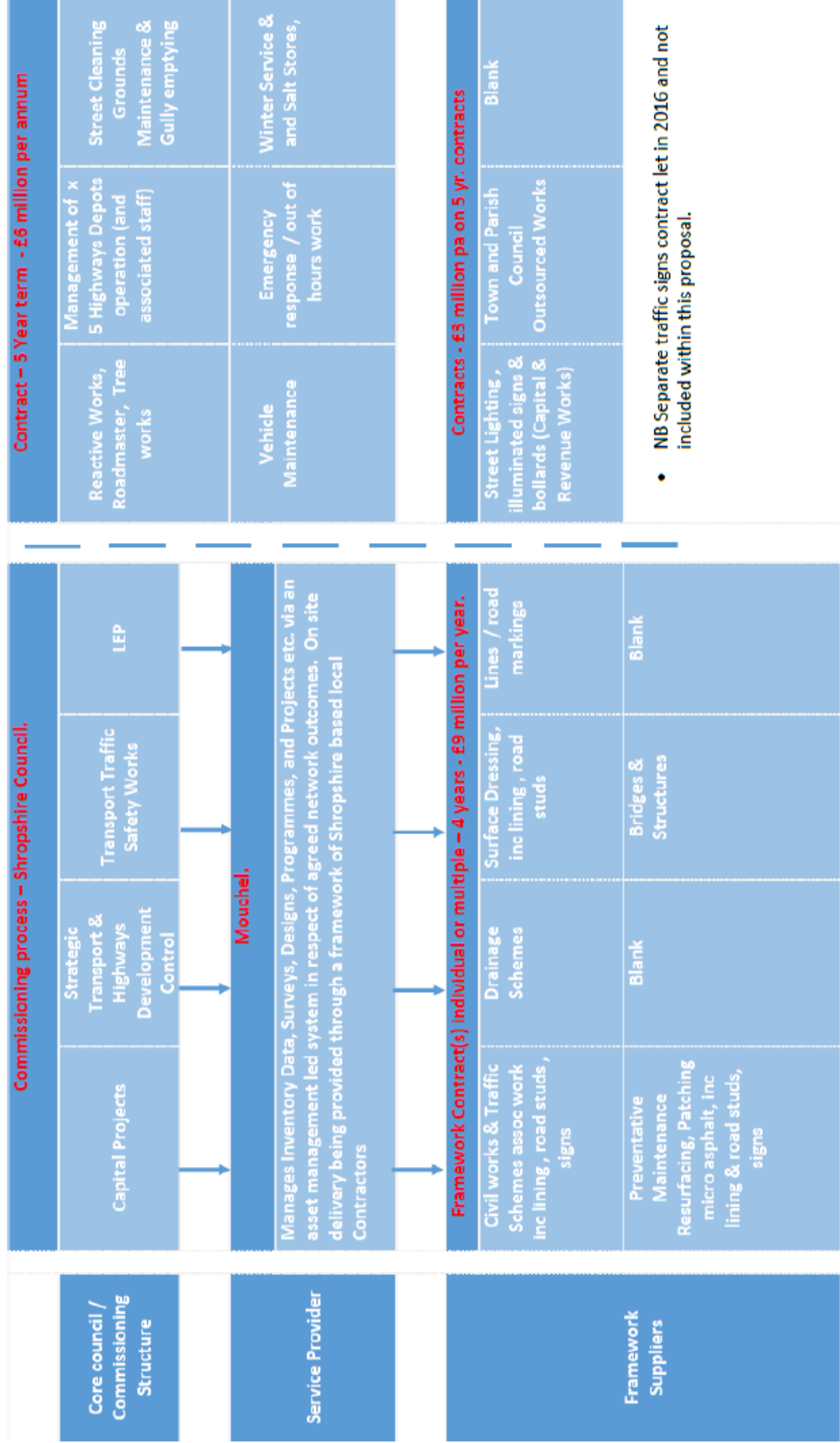
In making an assessment, the procurement team have taken account of Shropshire’s feedback and those of our partners, as well as corporate requirements.

The ‘shortlist of options’ were

Option A	<p>Traditional Term Service Contract – re-procurement</p> <p>Remodel the Term Service Contract arrangement and re-procure. This model would support reduced revenue and capital budgets and the spread of overheads and cost apportionment across the contract, it is likely that significant savings could be realised with a reduction in service standards or volume of work issued.</p>
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<p>Option B</p>	<p>Executive Client Led Model</p> <p>The development of an executive client and / or the development of an integrated entity (provider / client) for introduction at the next procurement cycle. Risky at this moment of time, as this model is still evolving, and should be an ambition for 2023 in the next procurement round. Discounted.</p>
<p>Option C</p>	<p>The New Operating Model – see diagram below</p> <p>This model proposed a separation of the Capital works programme into a framework model, supported by Mouchel (left side of diagram overleaf), then a separate tender for the management of the depots, and associated reactive and routine works, which tend to be predominantly revenue based and would require a separate procurement process to the development of the capital framework. Possibly, separate organisations could ‘win’ different packages of the contract or framework, or a single entity could win both. This arrangement would require a new approach and revision of management and practice, which could provide savings in terms of the capital framework and overhead costs. However, there are inherent risks in this model to be aware of. Key issues are:</p> <ul style="list-style-type: none"> • No guarantee that a provider will competitively bid for the depot contract of £5 million per year, without the inclusion of limited capital work. Further discussions with providers identified an appetite to bid for the depot contract with included capital works to financially attract bids. • The introduction of a new framework, although possible, logical, and financially attractive, will increase client costs and provide stresses in the division of capital and revenue funds. (See schematic diagram overleaf). • A disaggregated service across Mouchel, capital frameworks, depot providers and Shropshire Council was considered an inherent risk to manage. • The management of key frameworks would provide an additional management burden in the co-ordination of cohesive packages of work to direct or commissioned staff. • TUPE issues could be problematic in the disaggregation of the service, in respect of external challenges and operational implementation. • Organisational experience is limited with a smaller scale model in existence. • Financial flexibility on the capital delivery of projects would be more adaptable to the Council’s needs. • Transfer of risk of service programming and co-ordination ‘in-house’ or commissioned would transfer back to Shropshire Council requiring an increase in programme and scheduling staff, or increased commissions to Mouchel. • The new model (below) would allow for greater control of large-scale works.

Proposed Delivery Model for Consideration – Highways and Environmental Maintenance – (Indicative Model and Budgets)



7.12. Using the outcomes set (Success Criteria) an internal desktop assessment was undertaken (see table below) of the available options for the future service model. Using a score matrix of 1 – 5, where 1 is very poor or unlikely to meet objectives or criteria and 5 is excellent or highly likely to meet objectives. The review was undertaken and challenged by colleagues based on the outcomes of the

- Peer challenge
- Industry interviews
- Local authority visits
- Soft market testing

7.13. The options considered all of the available information. The options review was:

- Option A Term Maintenance Contract
- Option B Executive Client
- Option C New Operating Model

Business Case		Option A Term Maintenance	Option B Executive Client Contract MA/TMC	Option C New Operating Model MAC/PFI
Strategic	Customer Focus	4	5	4
	Improve & Develop Highway Infrastructure	4	4	4
	Maintain a safe & secure Highway Environment	4	4	4
	Make best use of resources	3	3	3
	Collaboration	4	3	4
Economic	Improve Economic growth	3	3	3
	Tackle Climate Change	1	1	1
Management	Asset Management	4	2	3
	Contract Management	4	3	3
	Performance Management	4	2	4

Commercial	Transfer of Risk	4	1	2
	Deliver the Services	3	3	3
	Benefits Realisation	4	2	3
	Value for Money	4	3	3
	Market Participation	3	3	3
Financial	Affordability	3	2	2
	Funding Commitments	3	3	3
	Savings & Efficiencies	4	3	2
TOTAL		63	50	54
PERCENTAGE (of possible maximum score)		70%	56%	60%

7.14. Due to the 'narrow range' of scores between Term Maintenance and New Operating Model (70%, 60% respectively), the initial assessment identified that these two models should be considered, going forward, for more detailed consideration.

7.15. In addition to the options above, consideration has been given to the potential to deliver a highways service directly, by creating a Direct Labour Organisation (DLO). However, this was not considered as an option to move forward because:

- Significant capital investment would be required to set up such an organisation, for example, ICT, PPE training, HR, Health & Safety, plant and tools, licences, etc.
- Potential inability to manage and run such an organisation given future budget and legal uncertainties
- The capacity of the authority at present
- The limited scope for such an organisation to develop, grow or trade externally

This model with a capital framework would however, be straight forward, simple and effective

8. Local Partnerships – Peer Challenge

8.1. Shropshire Highways commissioned Local Partnerships to undertake a peer challenge on the development, process and progress of the highways re-procurement exercise. The commission of Local Partnerships was due to their considerable experience in this field and their work for and on behalf

of the Local Government Association (LGA) and the Department for Transport. A peer challenge was undertaken in late June, involving all professions and disciplines across the Council, including Portfolio Holder, Legal, Procurement, Highways Management, Highways Development Control, Street Scene and Senior Management.

8.2. The peer review came to the following conclusion and recommendation:

- Term Maintenance Contracts work well nationally. Current recent experiences should not lead to an automatic disqualification of this model. Whether based upon Schedule of Rates or Cost Plus, this model is valid and effective, Shropshire Council has experience in managing this form of contract, and this is a value not to be overlooked.
- Use of Lump Sums / Schedule of Rates (SORs), assuming this is adopted, then a more certain outcome should be anticipated. However, the change in approach and skills base is a risk to be managed and aware of.
- The New Operating Model has logic and would be effective. This model would bring risk in-house, rather than transferring to the contractor. There would be additional costs in managing this risk, either directly or via Mouchel, with additional costs of coordinating / managing the workflow and scheduling of works and service activities.
- Contract management has improved considerably over the last 5 years and a professionally trained client with skills and experience has been developed and is an effective resource to the Council. Although a restructure to embed interim arrangements and revised teams to support the new contract are required.
- Based upon the time available in the Peer Review, the service was concluded as “appears to be well managed with motivated and informed staff...”
- Commercial sustainability needs to be embedded in the contract if future ‘success’ is to be derived, and commercial sustainability also needs to be recognised from the contractor’s position.

8.3. Procurement requirements

8.3.1. Cabinet will appreciate that due to the financial size of the contract that this will be required to be advertised European wide, and is required to follow the EU Procurement Directive / UK Public Contract Regulation 2015 and guidance.

8.4. Modelling the proposed service

8.4.1. Local Partnerships were also commissioned to facilitate and prepare a workshop with the Highways Management Team, Mouchel, Portfolio Holder and colleagues from Finance, Legal, Procurement and IT to enable the options appraisal exercise. To provide further detail the objective of the workshop was to:

- **Establish options** based upon a Term Maintenance Contract or New Operating Model.
 - Identify the relevant advantages of each
 - Identify the relevant disadvantages of each
 - What options are discarded (if applicable)
- **Analyse options**
 - Deconstruct each option; determine what staffing levels, skills and abilities are required to support these models.
 - Identify what change in culture or approach are required.
 - What will provide the required outcome, to further support satisfaction and efficient use of resources, and ease of work delivery?
- **Risk Analysis**
 - What are the key risks that could prevent successful implementation?
 - What risks are inherent in each model?
 - Which model is deliverable?

8.5. Workshop Outcomes

8.5.1. A full day's workshop of over 23 staff was facilitated by Local Partnerships, discussing, presenting and providing perspectives from across a range of interests. In particular, focus was on the Term Maintenance Contract and a New Operating Model. The outcome was that the Term Maintenance approach was more appropriate, mainly due to the management of risk, TUPE, coordination of works and services and potential for increased costs, and existing experience and current staff capacity.

8.5.2. The potential to minimise costs, reduce risk, build upon organisational experience and learning, and support effective contract management was considered to be best delivered by a term maintenance contract.

8.5.3. With a forecast of declining capital and revenue budgets, a Term Maintenance Contract is the most effective. Further, the outcome of the soft market testing was that the term maintenance approach would be more favourable to the market.

8.5.4. New Operating Model. There was support for this model; however, analysis from the soft market testing identified a strategic risk if sufficient

bids are not received for the depot contract of £5 million per year. The risk would be that the Council would have to take these services in house and operate a DLO. This risk was thought to be unacceptable. In addition, issues relating to TUPE, risk apportionment, separation of overheads, works programming and scheduling, did not provide sufficient confidence to recommend this model at present.

8.6. Members briefing session and workshop.

8.6.1. All Members of Shropshire Council were invited to attend a briefing session / workshop, held on the evening of 11th October and the afternoon of 12th October. The purpose of the workshop(s) was to :-

- Focus upon the market engagement process, describing the process and evidence generated to date. Brief on the data generated, the advantages and disadvantages of models – and capture Member's views, especially in relation to the proposal of pursuing the Term Maintenance Model.
- Brief on how the budgets will be reducing and seek views from Members. Brief on work with Towns and Parishes and grounds maintenance, and how this affects the future procurement.
- Consult on issues such as contract length, key performance indicators, quality and cost evaluation splits.

8.6.2. The briefing sessions were received well, and no concerns were raised on the proposed implementation of the Term Maintenance Model.

9. Project Management

9.1. Mouchel have been commissioned to provide support in preparation of contract documentation and associated professional advice. Preparation of contract documentation and discussions have already begun with colleagues across the council. The SC project lead is the Contracts Service Manager for Shropshire Council.

9.2. A procurement project timetable has been developed to ensure the robustness of this project. **See Appendix 2.** Mouchel have been commissioned to provide support in collation and preparation of contract documentation and associated professional advice. This work is already underway and the timetable presented is achievable, and on schedule.

9.3. A Procurement Board has been established consisting of colleagues from across the Council and meets on a fortnightly basis, in order to challenge, make decisions, prepare the contract documentation, and ensure the project timetable is achieved. Minutes of the meetings are circulated, and the Portfolio Holder is briefed weekly.

- 9.4. In order assist the process, Cabinet have been requested to delegate approval to assist the contract preparation and internal decisions to allow the expidious completion of the contract documentation to assist the project timetable.
- 9.5. Significant improvements in staff training and development have allowed Shropshire Council staff to become accredited Association of Project Managers, and effective project management principles will apply.

10. The Equality and Social Inclusion Impact Assessment (ESIIA)

- 10.1. A stage one (screening) ESIIA has been completed for this report, **Appendix 3**, and as the contract documentation and approach in developing the contract documentation manifests itself, a detailed stage 2 assessment will be completed for the final report to Cabinet in 2017.

11. Summary

- 11.1. This report recommends on balance, a modernised Term Maintenance Contract utilising Schedule of Rates / Lump Sums for minimum strategic risk based upon the balance of:
- Soft market testing
 - Local partnership peer challenge
 - Financial workshop
 - Procurement and legal advice on the advantages and disadvantages of each model
 - Operational delivery (existing systems and processes)

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Cabinet Member (Portfolio Holder)
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Councillor Simon Jones, Portfolio holder for Highways and Transport

Local Member

All Members

Appendices

Appendix 1 - Soft Market Testing Outcome Report

Appendix 2 - Procurement Project Timetable
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Appendix 3 - The Equality and Social Inclusion Impact Assessment (ESIIA – Stage 1)
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