

## **WIRRAL COUNCIL**

### **SUSTAINABLE COMMUNITIES OVERVIEW AND SCRUTINY COMMITTEE – 8<sup>TH</sup> MARCH 2010**

#### **REPORT OF THE DIRECTOR OF TECHNICAL SERVICES**

#### **HIGHWAY AND ENGINEERING SERVICES CONTRACT – REVENUE IMPLICATIONS**

##### **1.0 EXECUTIVE SUMMARY**

1.1 This report outlines the projected financial implications of the Highway and Engineering Services Maintenance Contract that commenced on 1<sup>st</sup> April 2009. A more detailed report will be presented to Members in summer 2010 detailing the first year contract performance and financial implications.

##### **2.0 BACKGROUND**

2.1 At the meeting of this Committee on the 18<sup>th</sup> November 2009, Members requested a report on the revenue implications of this contract.

2.2 Following the tender process the initial evaluation indicated that for a typical basket of works the successful contractor was potentially 25% cheaper than the second place contractor. In addition Colas Ltd were cheaper than Wirral Council Operational Services by a similar amount even when taking into account the anticipated cost to the Council of closing down the in-house arrangements.

2.3 A comparison of works costs in 2008/09 and 2009/10 under the new contractor indicated the same volume of work could be procured from the new Colas Ltd rates for £550,000 less than the contract existing in 2008/09. This results in a projected efficiency saving of £4.4M over the eight year contract period.

2.4 The annual works value of the Highway Maintenance Term Contract is approximately £8 million, comprising £4.6 million and £3.4 million capital.

2.5 Highway Maintenance funding is sourced from both Revenue and Capital budgets. Considering the £550k efficiency saving, this can be split in the same ratio as the revenue and capital funding. This equates to:

- £220k per annum true revenue savings against revenue works expenditure (£1.76M over the eight year contract term) to contribute to the corporate efficiency savings targets.
- £330k per annum efficiency saving against capital works expenditure (£2.64M over the eight year contract term) primarily to facilitate increased work output for the allocation available or possibly offset the effect of contract inflation in future years.

##### **3.0 CLIENT STAFF SAVING**

3.1 True revenue savings have also been achieved as a result of a smaller client organisation being required to manage a single strategic contract. The Consultant's Outline Business Case identified a potential 25% reduction in client staffing levels.

3.2 Further clarification of the resource requirement for the client organisation has shown the anticipated reduction in staff numbers during the first two years of the contract are as follows:

<b>Financial Year:</b>	<b>Annual reduction in staff number:</b>	<b>Cumulative revenue saving:</b>
(Yr1) 2009/10	3 no FTE	£100k
(Yr2) 2010/11	3 no FTE	£80k + £100k = £180k
Totals	6 no FTE reduction in establishment from Yr2 of contract	£1.36m over eight year term

3.3 Based on this analysis, it is predicted the true revenue saving associated with Client staffing for 2009/10 will be £100k, rising to £180k per annum in 2010/11 giving a total cashable efficiency saving over an eight year contract term of £1.36M.

3.4 It is important to note that further Client staff savings may be achievable beyond 2010/11 but these will be largely predicated on the potential to develop a Highways Asset Management ICT System in partnership with the new provider once the new contract has commenced.

#### **4.0 GERSHON SAVING**

4.1 There is one further additional non cashable efficiency saving delivered through the new contract as all tendered rates include a built in 1.5% per annum Gershon Efficiency Saving. This saving could equate to approximately £1M over the eight year contract term depending on details of rates of inflation.

#### **5.0 GATEWAY REVIEWS**

5.1 As Members are aware this procurement exercise has been subject to the Gateway Review process, assessing and guiding the Authority through the exercise. In the Gate 4 Assessment the reviewers confirmed that the driving force for the project was the requirement for an efficient and effective highway and coastal maintenance contract which could be shown to offer good value for money.

5.2 Their completed Review determined that successful delivery of the project was probable and that much good work had been achieved in the context of a robust procurement.

5.3 The final Review (Gate 5) is scheduled for the 22-24 June 2010 and considers the benefits realised from the project, current contract management, what lessons can be learnt from the experience and future targets.

#### **6.0 FINANCIAL AND STAFFING IMPLICATIONS**

##### **6.1 Summary**

During 2009/10 the Council is spending approximately £8M on works:

Revenue Programme = £4.6M

LTP and Highways Capital = £3.4M

6.2 The anticipated cashable efficiency savings are summarised as follows:

- £220k per annum true revenue saving against Revenue Works expenditure (£1.76M over the eight year contract term)
- £100 true revenue saving associated with Client staffing for 2009/10 rising to £180k per annum in 2010/11 (£1.36M over the eight year contract term)
- £330k per annum efficiency saving against Capital Works expenditure (£2.64m over the eight year contract term)
- Anticipated 1.5% Gershon Efficiency Saving (non cashable) included in tendered rates equating to approximately £1 million over the eight year contract term (dependent on actual rates of inflation)

## **7.0 EQUAL OPPORTUNITIES/EQUALITY IMPACT ASSESSMENT**

7.1 Equal opportunities issues are considered as part of the highway maintenance service provision.

## **8.0 PLANNING IMPLICATIONS**

8.1 There are no direct implications under this heading.

## **9.0 COMMUNITY SAFETY IMPLICATIONS**

9.1 The provision of an effective highway maintenance regime particularly the street lighting network provides a positive contribution to community safety.

## **10.0 HUMAN RIGHTS IMPLICATIONS**

10.1 There are no direct implications under this heading.

## **11.0 LOCAL AGENDA 21 IMPLICATIONS**

11.1 Sustainability issues are considered as part of the highway maintenance service provision.

## **12.0 SOCIAL INCLUSION IMPLICATIONS**

12.1 There are no direct implications under this heading.

## **13.0 ANTI-POVERTY IMPLICATIONS**

13.1 There are no direct implications under this heading.

## **14.0 ACCESS TO INFORMATION ACT**

14.1 There are no direct implications under this heading.

## **15.0 LOCAL MEMBER SUPPORT IMPLICATIONS**

15.1 The contract involves work locations through the borough.

## **16.0 RECOMMENDATIONS**

16.1 Members are asked to note the contents of this report pending the presentation of a further report in July 2010 detailing the contract performance and financial implications for the first year of the contract.

DAVID GREEN, DIRECTOR  
TECHNICAL SERVICES