

WIRRAL COUNCIL

CABINET – 27TH NOVEMBER 2008

REPORT OF THE DIRECTOR OF TECHNICAL SERVICES

**HIGHWAY AND ENGINEERING SERVICES PROCUREMENT EXERCISE –
PROPOSED EFFICIENCY SAVINGS AND CONTRACT MOBILISATION
UPDATE**

1.0 EXECUTIVE SUMMARY

1.1 Further to the decision by Cabinet on 16th October 2008 to award the new Highway and Engineering Services contract to Colas Limited, this report sets out in detail the proposed efficiency savings to be delivered through the new contract and provides an update on the contract mobilisation process on the run-up to the 1st April 2009 contract commencement.

2.0 BACKGROUND

2.1 Members will recall my previous report to Cabinet on 20th September 2007 which noted the conclusions reached by consultants Capita Symonds that a “single service with single provider” contract arrangement be introduced and achieved using a Restricted Procedure procurement route.

2.2 The “single service single provider” arrangement consists of bringing together all the separate service contracts into one single contract with a single provider with the Council retaining full client control. Potential efficiency savings in the Capita Outline Business Case were estimated at £3.6M over eight years and it was highlighted that such an approach would generate significant efficiencies particularly in terms of improved quality and increased output of work for the capital works allocations available and on the client side less staff will be required to manage a single strategic contract resulting in direct staff savings. Further detailed information relating to financial and staffing issues was subsequently presented to Cabinet on 1st November 2007.

2.3 In my most recent report to Cabinet on 16th October 2008, the outcome of the tender evaluation process was presented with the recommendation that the new contract be awarded to Colas Limited (Minute 246 refers).

2.4 In relation to the quantitative value for money assessment, the Financial Evaluation Model based on a typical basket of works indicated that Colas Limited were 25% cheaper than the second placed provider, Balfour Beatty. In addition, Colas Limited were cheaper than Wirral Council Operational Services Division by a similar margin even when taking into account the anticipated cost to the Council of closing down the in-house arrangements.

- 2.5 In terms of efficiency savings, a comparison of the anticipated cost of carrying out works during the current year 2008/9 using existing contract arrangements with the cost of carrying out the same work under the new contract was undertaken. This indicated that the same volume of work could be procured from the new Colas Limited rates for £550,000 less than under the existing contracts, resulting in a projected efficiency saving of £4.4M over the eight year contract period and confirmation that the efficiency savings proposed in the initial Outline Business Case will be realised.
- 2.6 In relation to the qualitative value for money assessment, Colas Limited also achieved the highest quality score with a submission highlighting their expertise in delivering similar Local Authority and Highways Agency maintenance contracts as well as a number of surfacing, street lighting and framework contracts for other Local Authorities with a total value of in the region of £145M per annum.
- 2.7 In advance of the report to Cabinet on 16th October recommending the award of the contract, an external Gateway 3 Investment Decision Review was undertaken by the 4Ps organisation. The purpose of the Review was primarily to validate the Council's approach to the procurement exercise including the evaluation of tenders, selection of preferred provider and confirmation of business case before the Investment Decision was made.
- 2.8 The conclusion of the Review was that "the Review Team finds that a successful procurement has been delivered, in a well managed manner. The project continues to meet Council objectives and will deliver value-for-money. The omens for success are good." A copy of the Review report is appended to this report.

3.0 PROPOSED EFFICIENCY SAVINGS

3.1 Capital and Revenue Works

3.1.1 The Council is spending £7.985M on Works during 2008/9 as follows:

- Highway Maintenance Revenue Programme = £4.602M
- LTP and Highways Capital Programme = £3.383M
(consists of £2.614M LTP plus £769k Highways Capital)

In relation to 2009/10 and going forward the total expenditure would depend upon the future LTP settlements and future Council decisions in relation to various highway budgets.

3.1.2 A large proportion of the Highway Maintenance Revenue allocation is used to improve the highway network and is therefore eligible for capitalisation in accordance with Accounting Standard FRS15: Tangible Fixed Assets. A complete review of the highway budgets is

now underway clearly identifying specific areas of both capital and revenue expenditure in line with this standard.

3.1.3 At Cabinet on 16th October a capitalisation figure of £1.5M was approved as part of the Director of Finance's Projected Budget 2009-11 (Minute 219 refers) and the revised expenditure can be summarised as follows:

Spend area	Total £000	Capitalised Revenue £000	Revised Total £000
Revenue Programme	4,602	-1,500	3,102
Capital Programme	3,383	+1,500	4,883

3.1.4 Based on this Revenue/ Capital split, the £550k per annum total efficiency saving stated in my previous report is broken down as follows:

- £220k per annum true revenue saving against Revenue Works expenditure (£1.76M over the eight year contract term) to contribute to 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.

3.1.5 As highlighted in my previous report, additional non-cashable efficiency savings will be delivered through the new contract as all tendered rates include a built in 1.5% per annum Gerschon Efficiency Saving. This efficiency saving equates to approximately £1M over the eight year contract term depending on actual rates of inflation.

3.2 Client Staff Costs

3.2.1 As highlighted in previous reports, true revenue savings can be achieved as a result of a smaller client organisation being required to manage a single strategic contract. The Capita Outline Business Case predicted an approximate 25% reduction in staff over the eight year term of the contract and my report to Cabinet of 1st November 2007 (Minute 340 refers) confirmed the intention to achieve this "gradual down-sizing" with minimal need for redeployment/ redundancy based on the age profile of the employees concerned.

3.2.2 As a result of further clarification of the resource requirements for the new Client organisation, the anticipated reduction in staff numbers during the first two years of the contract are as follows:

Financial Year:	Annual reduction in staff number:	Cumulative revenue saving:
(Yr1) 2009/10	3 no FTE	£100k
(Yr2) 2010/11	3 no FTE	£80k + £100k = £180k
Totals	6 no FTE reduction in establishment from Yr 2 of contract	£1.36M over eight year term

3.3.3 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.*

3.3.4 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 CONTRACT MOBILISATION UPDATE

4.1 In my previous report to Cabinet on 16th October, a number of key issues requiring further consideration as part of the Contract Mobilisation process were highlighted as follows:

- Confirmation of the alternative depot proposal including the potential for an alternative use or even sale of sites to generate a capital receipt
- Confirmation of the process for terminating the in-house contract with Wirral Operational Services Division (OSD) including verification of actual close-down costs
- The need to align Technical Services Department budgets to reflect the rate schedules in the new contract
- The strategy to ensure a robust “intelligent client” team and processes are in place to effectively manage the new contract
- The HR and Communications Strategy to effectively manage the change process for in-house contractor (OSD) employees, including the importance of timely discussions with the new provider in relation to “at risk” employees in the Engineering Workshop and Transport Section

4.2 Due to the need to adhere to statutory Standstill Period procedures before engaging with the new provider, it has not been possible to progress negotiations on these matters as quickly as officers would have wished. Even so, a robust Contract Mobilisation Strategy is being developed based on a series of key workstreams and it is proposed that a verbal update on these matters will be provided at the meeting. The Contract Mobilisation Strategy key workstreams are as follows:

- OSD Close-down including Service Continuity

- OSD HR/ Change Strategy
- Forward Planning Work Programme
- Intelligent Client Processes and Management Systems
- Intelligent Client HR/ Change Strategy
- ICT Development including Financial Systems
- Legal/ Contract Finalisation
- Marketing and Communications
- Depot Strategy
- Transport Service

4.3 It is proposed that officers will report to future meetings on Contract Mobilisation progress in due course, including action taken against the 7 Recommendations from the recent Gateway 3 Review.

5.0 SUMMARY OF FINANCIAL AND STAFFING IMPLICATIONS

5.1 In terms of current spending, the Council is spending £7.985 million on works during 2008/9 as follows:

- Highway Maintenance Revenue Programme = £4.602M
- LTP and Highways Capital Programme = £3.383M
(consists of £2.614M LTP plus £769k Highways Capital)

5.2 In addition, the revenue staff costs associated with administering these works for 2008/9 are £1,655k.

5.3 Anticipated cashable efficiency savings are summarised in the table below:

Spend Area	Expenditure	Saving 2009/10
Revenue Works Programme	£3,102k	£220k
Client Staffing	£1,655k	£100k

5.4 The detailed financial implications can be summarised as follows:

- £220k per annum true revenue saving against Revenue Works expenditure (£1.76M over the eight year contract term)
- £100k 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 £1million over the eight year contract term (dependent on actual rates of inflation)
- In-house contractor termination costs equating to £99k per annum over a minimum five year term as follows:

- Possible redeployment/ redundancy of employees and sale of stock costs less sale of vehicles = £102k one-off cost (possibly funded from first year savings)
- Reduction in Central Establishment Charges and Business Support contributions = £79,200 per annum loss of income
- The cost of external consultant support for the procurement exercise including Outline Business Case development, project management and legal assistance since January 2007 is approximately £125k of a total allocation of £200k from within existing Departmental budgets

5.5 The detailed staffing implications can be summarised as follows:

- Highway Maintenance Division (Client) staff – gradual down-sizing involving a 3 FTE reduction in establishment in 2009/10 and a further 3 FTE reduction in 2010/11 with minimal requirement for redeployment/ redundancy
- Operational Services Division – 76 employees to TUPE transfer to the new provider
- Engineering Workshop – 6 employees “at risk” and subject to potential redeployment/ redundancy

5.6 Even though the work of the Transport Section is outside the scope of this procurement exercise, Operational Services Division are the second biggest user of the Council’s transport fleet and account for approximately 40% of the Section’s workload.

5.7 This workload is spread amongst the team of 14 employees with none eligible for TUPE transfer, hence 5 employees may be “at risk” subject to redeployment/ redundancy depending on the future of the Section and its ability to secure alternative work, possibly from the new provider. It is also worth noting that a Council-wide review of transport provision is being led by the Director of Finance and an initial report is expected in the New Year.

5.8 Overall, it is imperative that early discussions take place with the new provider to determine the future of “at risk” employees in the Engineering Workshop and Transport Section and it is proposed that this issue will be included in a further report to Cabinet shortly.

6.0 EQUAL OPPORTUNITIES IMPLICATIONS

6.1 Equal opportunities issues have been considered as part of the procurement process.

7.0 PLANNING IMPLICATIONS

7.1 There are no direct implications under this heading.

8.0 COMMUNITY SAFETY IMPLICATIONS

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

9.0 HUMAN RIGHTS IMPLICATIONS

9.1 There are no direct implications under this heading.

10.0 LOCAL AGENDA 21 IMPLICATIONS

10.1 Sustainability issues have been considered as part of the procurement process.

11.0 SOCIAL INCLUSION IMPLICATIONS

11.1 There are no direct implications under this heading.

12.0 ANTI-POVERTY IMPLICATIONS

12.1 There are no direct implications under this heading.

13.0 ACCESS TO INFORMATION ACT

13.1 There are no direct implications under this heading.

14.0 LOCAL MEMBER SUPPORT IMPLICATIONS

14.1 The contract involves work locations throughout the borough.

15.0 RECOMMENDATIONS

That

- (1) the findings of the recent Gateway 3 Investment Decision Review be noted;
- (2) the proposed efficiency savings detailed in this report be noted and agreed; and
- (3) the latest position with respect to Contract Mobilisation be noted and officers' intention to report to future meetings on progress involving action taken against the Gateway 3 Review Recommendations be endorsed.

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