

HERTFORDSHIRE COUNTY COUNCIL

**HIGHWAYS CABINET PANEL
16 NOVEMBER 2017 AT 10.00AM**

<p style="text-align: center;"><u>Agenda Item</u> <u>No</u> 3</p>
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HIGHWAY SERVICE REVIEW:

- (i) POTENTIAL EXTENSION TO THE HIGHWAYS SERVICE TERM (RINGWAY) CONTRACT
AND**
- (ii) POTENTIAL EXTENSION TO THE CLIENT SUPPORT TERM (OPUS-ARUP) CONTRACT**

Report of the Chief Executive & Director of Environment

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1. Purpose of report

The purpose of this report is to:

- Inform the Highways Cabinet Panel of the Highways Service Review, seeking their comments on the recommendation to Cabinet to extend the Highways Service Term (Ringway) and Client Support Term (Opus-Arup) Contracts.

2. Summary

- 2.1 An extensive process, under independent scrutiny, has been followed to establish whether to extend the existing Highways Contracts, or to re-procure.
- 2.2 A number of factors have been considered that will influence the final decision:
 - a. The overall performance of Ringway has improved since the start of the contract and continues to achieve overall good performance against the contractual PI's;
 - b. The overall performance of Opus-Arup has improved since the start of the contract and continues to achieve overall good performance against the contract measures;

- c. The relationship with Ringway has evolved considerably since 2012 and there are now a number of joint initiatives and groups who are working together to evolve the service;
- d. The Whole Client Service relationship has continued to grow and meet its objectives;
- e. Improvements in both customer and Member engagement across the service has resulted in fewer complaints and reduced levels of general contact with the service. However, this continues to be an area that needs further improvement;
- f. The service as a whole has achieved a more stable platform on which to build and relationships with both providers now at a point where the focus is on service evolution rather than contractual dispute and financial bottom line;
- g. The provider bids build on the current service evolution and help identify where future savings can be made;
- h. Soft market testing suggests that there are no alternative contract models emerging nationally that would be better for Hertfordshire. Indeed Hertfordshire's almost unique approach to localism with its Highways Locality Budget and 78 clients, will be a constraining feature on choice of any future model;
- i. There is much uncertainty in the market with Brexit, the value of the pound and other major construction projects suggesting now is not the best time to go to the market;
- j. The market is suggesting that contractors are being more selective in which contracts to bid for, whilst increasing their margins;
- k. Recent rate comparisons for works that can be undertaken by either Ringway or the specialist framework contractors are beginning to show that Ringway are becoming more competitive than the specialist frameworks;
- l. There are a number of other highway related contracts due out in the next 2 years, which would dilute the efforts of bidders and impact on Hertfordshire's ability to secure the keenest prices;

- m. The financial and reputational costs of procurement followed by contract start-up can be considerable and put additional pressure on the service whilst it seeks to build on its improved performance;
 - n. Whilst there is a need to evolve the service, there have been no strong demands for a radical change that would necessitate re-procurement. There is sufficient flexibility within the 2 contracts to allow for minor changes being proposed to deliver the service evolution required;
 - o. The proposed takeover of Opus by WSP could impact on the current Client Support Term (CST) contract and this will need to be managed. However, going out to the market brings its own concerns in terms of how any new provider will behave;
- 2.3 Given current level of service performance, the stable platform and improved relationships within the service, combined with market uncertainty and general inflationary pressures, it is proposed that both contracts are extended in accordance with the contract terms.

3. Recommendation

- 3.1 The Highways Cabinet Panel is requested to recommend to Cabinet that Cabinet agrees:
- 3.1.1 The Client Support Term contract with Opus International Consultants (UK) Limited and Ove Arup and Partners Limited is extended in accordance with the contract for a period of up to 5 years;
 - 3.1.2 The Highways Service Term Contract with Ringway Infrastructure Services Limited is extended in accordance with the contract for a period of up to 5 years;
 - 3.1.3 The decision to agree the final terms of the above extensions, including the contractual documentation and any necessary notices or other documents required, is delegated to the Deputy Director of Environment in consultation with the Executive Member for Highways and the Chief Legal Officer.

4 Background

- 4.1 The highways service is delivered via a mixture of in house teams and external providers. Each provider is engaged through a contractual process and these contracts have a finite life, although the main ones can be extended.

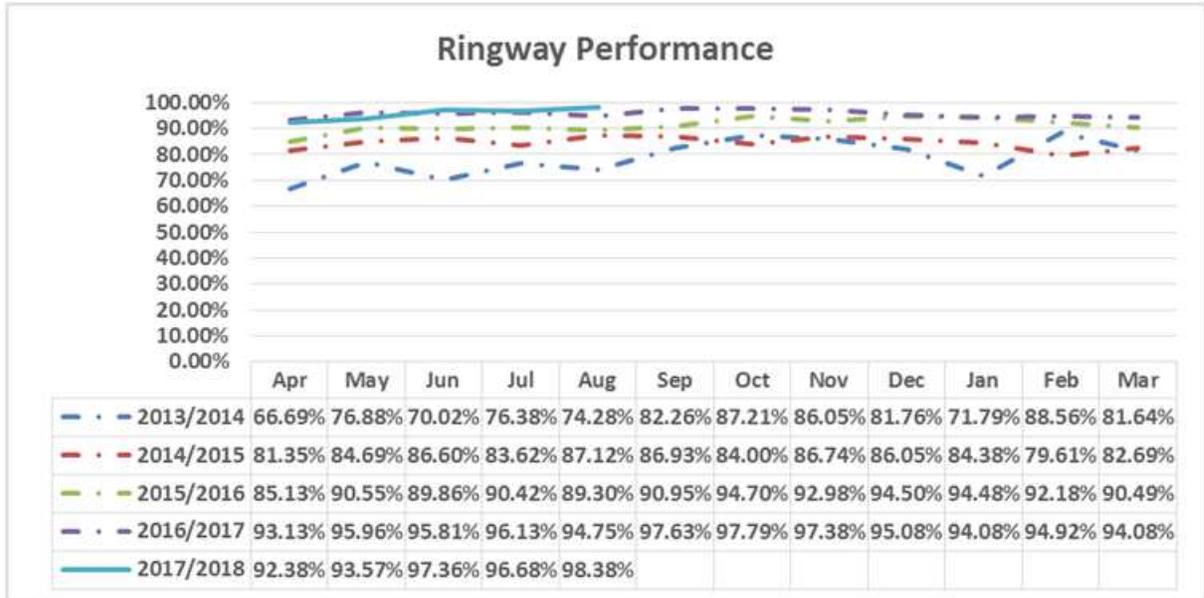
- 4.2 The two main contracts under the highway service are:
- i. The Highway Service Term (HST) contract – delivered by Ringway;
 - ii. The Client Support Term (CST) contract – delivered by Opus-Arup;
- 4.3 Both contracts started on 1 October 2012 and are for an initial 7 year term with an option to extend by up to a further 5 years.
- 4.4 To comply with the contract requirements the County Council must provide a minimum of 18 months notification to both Ringway and Opus-Arup if the County Council wishes to extend one or both contracts. However, the aim is to make the final decision before the end of December 2017.
- 4.5 The decisions to extend or re-procure are at the total discretion of the County Council.
- 4.6 To oversee the process a project board was established together with a highways officer project team to undertake the review work. The project board included:
- a. Deputy Director Environment;
 - b. Assistant Director Finance;
 - c. Assistant Director Improvement and Technology
 - d. Assistant Director Environment.
- 4.7 Through the process there needed to be evidence and analysis to enable the ultimate question to be answered:
- ‘Through a process of evolution, can one or both current term providers help the County Council deliver the expected services beyond 2019 under the current contracts?’
- and if so
- ‘will those arrangements represent good value for money and be more attractive than procurement?’
- 4.8 To help ensure robustness of process and decision making the County Council also commissioned an independent review of the project.
- 4.9 The process followed included:
- a. engagement with both staff and Members to gain their views of the service and expectations for change;

- b. engagement with the market to help understand if this had any bearing on procurement timeframes and service delivery;
 - c. a review of current service levels, service ethos and provider engagement together with an analysis of service expectations going forward and whether or not the service can meet these.
- 4.10 A range of interviews were carried out with staff from across the service, County Council officers outside of highways who have a relationship with the service, and a cross party group of County Councillors.
- 4.11 In addition a review of service performance was carried out looking back at historical data, how performance had changed over the life of the contracts and the various reports to Highways Cabinet Panel.
- 4.12 The general conclusion was that whilst the highway service had improved, there was recognition from both staff and Members that the service needed to continue to develop more robust and reliable customer and member communications.
- 4.13 Engagement with the market was also undertaken to understand if re-procurement was likely to have a financial impact on the service. This was through soft market testing.
- 4.14 As part of the process both Ringway and Opus-Arup were invited to submit proposals on what they could deliver as part of a contract extension, if the County Council were minded to offer an extension.
- 4.15 The context of the service has changed since it was originally designed in 2010 and there has been considerable evolution since then.
- 4.16 It is the current model and current performance that is being considered as the base line, not the service in the early years.
- 4.17 It should also be noted that the scale, scope and levels of service delivered through the contract are set by officers and members of the County Council, rather than Ringway or Opus Arup.

5. Outcomes from the Review

- 5.1 During the process a range of service enhancements and contract clarifications were identified, mainly with a focus on improving both Member and customer engagement through the provision of timely and reliable information on works delivery. Other changes included contract clarifications and minor changes to the works specification.

- 5.2 The proposed changes would not be considered to represent significant changes and could therefore be catered for within the current contracts.
- 5.3 A review of current market conditions is indicating that there are uncertainties around Brexit, which is affecting the labour market. This, combined with the recent drop in the value of the pound against other currencies and the general buoyancy in the market with a number of large scale construction projects, is likely to lead to cost increases if the County Council were to go to the market now.
- 5.4 Soft Market Testing was carried out by engaging with different contractors (not currently engaged in service delivery within the County Council Highways) to understand likely cost implications of going to the market in 2019. The general consensus from these sessions was that:
- i. Contractors are being more selective in what contracts they bid for;
 - ii. Contractors will not over stretch themselves;
 - iii. Contractors are putting in realistic bids;
 - iv. The buoyant construction market is tending towards prices increases.
- 5.5 This soft market testing with other contractors and local authorities also suggests that there are no alternative contract models emerging nationally that would be better for Hertfordshire. Indeed Hertfordshire's almost unique approach to localism with its Highways Locality Budget and 78 clients, will be a constraining feature on choice of any future model.
- 5.6 Looking at the procurement timelines for other highway authorities (including Highways England), there will be a number of potential contracts being tendered over the next two years and this may have an impact on contractor availability and market costs.
- 5.7 Service performance has improved since the start of the contract and has now achieved a stable platform on which to build and evolve the service to meet future expectations.
- 5.8 The follow graph shows the monthly summary performance scores for Ringway from 2013/14 to August 2017.



- 5.9 The graph clearly shows year on year improvements in Ringway’s performance when measured against the contract Performance Indicators (PI’s). In the first full year of the contract (2013/2014) performance was variable, ranging between 66.69% and 88.56%. In 2014/15 performance started to become more consistent and stabilised around the 80 to 85% range. This improvement continued and over the past 18 months service delivery has been very good, with overall performance being above 90% for this entire period.
- 5.10 However, there has been one area of concern in the quality audit results which have tended to be in the failing or review zone. Various joint workshops have been held to agree quality standards and help identify root causes so improvements can be targeted. The quality audit looks at two main items:
- Quality of work;
 - Has correct process been followed?
- 5.11 Recent analysis has shown that the majority of quality audit failures are as a result of the correct process not being fully complied with, rather than failures in quality of workmanship.
- 5.12 The overall performance data also includes a series of Failure to Deliver Events (FDE’s) which are an indication of where the service provided in specific areas has not met the contract requirements. Examples include working without a permit or failure to deal with an emergency within the defined timeframe. These FDE’s are summed up on a monthly basis and result in a financial deduction from the monthly payment.

5.13 The HST contract also includes an Annual Performance Indicator Deduction (APID), which represents a financial deduction from the annual payment based on performance throughout the financial year.

5.14 The table below shows the FDE and APID deductions for each year, which shows a year on year reduction in the APID as a consequence of improving performance. Ringway have also been focusing on reducing the number of FDE's particularly relating to permitting (road-space permits under the Traffic Management Act 2004). The figures below clearly show improvement over time.

Financial Year	2012/13	2013/14	2014/15	2015/16	2016/17
Failure to Deliver Events	£127,360.00	£280,000.00	£179,920.00	£238,795.00	£69,360.00
Annual Performance Indicator Deduction		£141,321.00	£70,305.00	£36,321.18	£26,766.09
TOTAL	£127,360.00	£421,321.00	£250,225.00	£275,116.18	£96,126.09

5.15 Overall performance for the CST has tended to be above the 80% satisfactory score except for the period June to August 2013. The trend has seen a gradual increase in the overall scores between years as set out below:

Financial Year	Average Score
2013/14	80.77%
2014/15	84.80%
2015/16	87.89%
2016/17	88.25%

5.16 In 2017/18 a new performance regime was introduced to better reflect performance across the whole service. This new regime included performance information for both customer and member engagement.

5.17 Improvements have been made in responding to customer enquires within 10 working days and member enquiries within 5 working days. Up until January 2017 responding to customer enquires was typically in the 68 to 80% bracket, but is now typically around 85%. Responding to member enquires has also improved and is now typically around 95% within 5 working days.

5.18 Changes have been made to on line systems for customer dropped kerbs as well as improving the level and quality of information available to customers on the web. This has resulted in a reduction of formal complaints and general enquires received by the service.

5.19 This shows a general increase in customer satisfaction with fewer people now needing to contact the highway service. This is further backed up by the reduction in repeat calls, which is where a customer is having to chase a response. Up to March 2015 there were typically around 10% repeat calls per month. However, by working closely with the Customer Service Centre and Ringway in particular, this was now reduced down to less than 0.5% (has been at 0.5% or lower since Dec 2016).

6. Other considerations

6.1 Recent rate comparisons for works that can be undertaken by either Ringway or the specialist framework contractors are beginning to show that Ringway are becoming more competitive than the specialist frameworks.

6.2 The cost of re-procurement is likely to be in the region of £1.0m for both contracts. As a consequence any new contracts will need to offer at least this level of saving over the current arrangements before they could be considered to offer better value for money.

6.3 Going to the market at any time is a potential risk because of the uncertainties of what contractors/consultants will be interested in tendering and what will be the costs of the new service.

6.4 The risks of who will tender can, to some extent, be mitigated by early engagement with the market and designing a service which attracts a suitable range of interested bidders.

6.5 There are also the indirect costs and impact of re-tendering. Any new procurement creates uncertainty within individuals and organisations engaged in service delivery. People may be concerned about future employment, where they work, what their job will be and who they will work for. There will also be changes in how the contracts operate and service delivery, which also create periods of uncertainty and potential confusion. As a consequence, there will be a period of service disruption with overall performance likely to dip.

7. Independent Review

7.1 As stated in section 4.8, to help ensure robustness of process and decision making, the County Council also commissioned an independent review of the project.

7.2 A copy of the Executive Summary from the independent review report is included as Appendix 1.

8. Financial Implications

- 8.1 The current project does not involve any change in financial provision for the two main contracts.
- 8.2 The current annual value of each contract is set out in the table below together with the indicative value over the life of a full 5 year extension:

CONTRACT	Approximate Annual Throughput	Indicative Throughput For 5 Year Extension
HST Contract	£49.2m	£246m
CST Contract	£15.0m	£75m

- 8.3 The recommendation to extend will not add cost to the service outside or inflationary costs.
- 8.4 The focus going forward will be to build on an evolving service to delivery efficiencies through collaborative working offering savings over the life of the contracts.
- 8.5 Both provider offers include opportunities for cost avoidance and these will need to be built into any extension provision.
- 8.6 A summary of the provider offers are included in the accompanying Part II report.

9. Conclusion

- 9.1 Given current level of service performance, the stable platform and improved relationships within the service, combined with market uncertainty and general inflationary pressures, it is proposed that both contracts are extended in accordance with the contract terms.

10. Equality Impact Assessments

- 10.1 When considering proposals placed before Members it is important that they are fully aware of, and have themselves rigorously considered the equalities implications of the decision that they are taking.
- 10.2 Rigorous consideration will ensure the proper appreciation of any potential impact of that decision on the County Council's statutory obligations under the Public Sector Equality Duty. As a minimum this requires decision makers to read and carefully consider the content of any Equalities Impact Assessment (EqIA) produced by officers.

10.3 The Equality Act 2010 requires the Council when exercising its functions to have due regard to the need to:

(a) eliminate discrimination, harassment, victimisation and other conduct prohibited under the Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

and

(c) foster good relations between persons who share a relevant, protected characteristic and persons who do not share it.

The protected characteristics under the Equality Act 2010 are age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion and belief, sex and sexual orientation.

10.4 No equalities implications have been identified in relation to this report, although any changes to the service as a result of the review may have equality implications which will need to be considered.

11.0 Background Information

None

APPENDIX 1 – COPY OF EXECUTIVE SUMMARY FROM INDEPENDENT REVIEW

Hertfordshire County Council Highway Services Review – Independent Review

EXECUTIVE SUMMARY

The principal contracts that fall within the scope of this review run through to 30 September 2019, and the inclusion of extension facilities within both contracts means that a decision needs to be made to either utilise those facilities and extend one or both contracts, or commence a reprocurement process and commission new delivery arrangements from 1 October 2019. To enable extensions to be implemented within the prescribed contract timescales, a decision is required by the end of March 2018 at the latest. This overall timescale is also consistent with the duration of normal reprocurement exercises for services of this type, should this option be preferred.

To inform this decision, Hertfordshire County Council (HCC) has committed significant resources to both review the performance of the existing contracts and explore and compare potential future service delivery arrangements for the design, management and maintenance of its highway network. An in-house highway service review process (HSR 2017) has been set up under the Deputy Director of Environment (Highways), the senior responsible officer for the service, and will report its findings to a meeting of the Highways Cabinet Panel on 16 November 2017.

The Deputy Director also sought to obtain an independent view of the process, intended to look at and comment on the methodology adopted, the thoroughness of its execution and the conclusions reached. To carry out this independent review, the Assistant Director commissioned Clwydian Consulting Limited, a consultancy specializing in all aspects of local authority highway management and maintenance. The review was carried out by Steve Kent, an experienced former local authority senior manager and practitioner, who previously held the posts of County Engineer for Cheshire County Council and Director of Environment for Cheshire West & Chester Council. A brief career summary appears at Appendix 1 of this report.

In fulfilling this commission, the reviewer has sought to strike an appropriate balance between sufficient engagement with the council's own service review team, to gain proper insight into their work, and the need to form and express a fully independent review of the processes followed and the conclusions reached.

To achieve this aim, a 'blank sheet of paper' approach has been adopted to the review and decision-making process, and the considerations made and conclusions reached have then been compared with the council team's findings so that they are, as far as possible, a completely independent view rather than solely a critique of the council team's completed report. The approach taken, the main factors considered, the conclusions reached and the rationale behind those conclusions are covered in more detail in the body of the report that follows.

In brief, the conclusions reached are as follows;

The council review has been both timely and thorough in its planning and governance, with adequate time and resources committed to fully explore the options considered. A thorough risk assessment has been carried out, systematically identifying and evaluating potential key risks to the success of the review project, along with mitigating measures to reduce the likelihood of serious impacts on project progress.

A balance has been sought between internal and external aspects of the review process, with information sought from internal stakeholders, including officers, provider personnel and elected members, as well as relevant external organisations from both the public and private sectors. The review has sought to base decisions on data and evidence, rather than just hearsay or opinion, although due note has been given to the contextual information in the form of stakeholder input, particularly in respect of issues relating to service perception and customer satisfaction.

In seeking to obtain and utilise evidence to inform and support the recommendations made in the report, the review has relied heavily on data from the contract performance frameworks for each contract. This data is generally informative about the performance of the service in question and collectively provides a comprehensive picture of performance across the whole service as the contracts have progressed. It is noted that the focus of the performance frameworks, initially at least, was on input / output measurements, although there has been a progressive move towards the inclusion of more measures of service outcomes as the contract has progressed. This development of the performance framework is a significant factor in attempting to determine the likelihood of future contract performance meeting service requirements, irrespective of the outcome of this decision-making process.

The initial conclusion of this review is that HSR 2017 has been thoroughly and professionally conducted, with an appropriate degree of internal and external information sought. Detailed comments and observations on the process are contained in the main sections of this report.

Regarding the decision itself, the conclusion of this independent review is that the most appropriate and advantageous course of action for the council would be to extend both existing contractual arrangements, utilising the extension facilities available within the respective contracts.

It should be made clear that this conclusion has been reached separately in respect of the 2 principal contractual arrangements and different conditions of extension, and indeed timescales, may be applicable in each case.

Finally, through the process of review, a number of general observations have been recorded, consideration of which may be of some value in future highway service development, whichever contract outcome is finally determined. These observations are included at the end of each sub-section in section 3. Review Considerations.