

# **CHESHIRE EAST COUNCIL**

## **REPORT TO: CABINET**

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**Date of Meeting:** 20<sup>th</sup> April 2010  
**Report of:** Strategic Director - Places  
**Subject/Title:** Transformation of Highways Services  
**Portfolio Holder:** Cllr Rod Menlove/Cllr Jamie Macrae

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### **1.0 Report Summary**

- 1.1 This report outlines how the Council is seeking to transform the delivery of highway services, including replacement of the current term maintenance contract, to drive improvement in highway condition, improve customer perception across Cheshire East and deliver increased value for money. The first objective is to agree a preferred model of service delivery for Cheshire East following the timetable set out in Appendix 1
- 1.2 Our highway network is a corporate priority and in particular the condition of our roads has been deteriorating for several years. The recent pre-budget consultation has confirmed that most stakeholders recognise that the service should be a priority for Cheshire East Council. As a customer-focussed Council, the customer service aspects of highway services are crucial to managing our residents' perception of the new Council.
- 1.3 The procurement of arrangements to replace the existing Highway Maintenance Contract is a key workstream within the Total Transport Transformation programme, one of six major transformation projects supported by the Council. In replacing the existing contract, the Council has the opportunity to modernise the whole of the service by adopting a fresh delivery model.

### **2.0 Decision Requested**

- 2.1 That Cabinet endorse the approach to transforming highways delivery as outlined in this report.
- 2.2 That a Cabinet Sub-Committee is established to manage the delivery of the project in line with the timescales outlined in this report.

### **3.0 Wards Affected**

- 3.1 All Wards are potentially affected by the proposal.

#### **4.0 Local Ward Members**

- 4.1 All Ward Members are potentially affected by the proposal.

#### **5.0 Policy Implications including - Climate change - Health**

- 5.1 The Total Transport Transformation programme is providing the framework for this project and will address major policy issues including climate change. One of the drivers for the new highways service will be to deliver cost efficiencies and to limit our carbon emissions.

#### **6.0 Financial Implications 20010/11 and beyond (Authorised by the Borough Treasurer)**

- 6.1 Significant in house resources from across Legal, HR, Procurement, and the Places Directorate will be required to deliver this project. The identification of the preferred option by end April 2010 will determine the exact scope and nature of the procurement, legal and HR resources required over the next 18 months.
- 6.2 One of the main drivers for this project however is to deliver a higher quality service in the medium term and achieve the efficiency targets of £1m during 2011/12 as identified in the Medium Term Financial Strategy for the Council.

#### **7.0 Legal Implications (Authorised by the Borough Solicitor)**

- 7.1 It is difficult to comment with any precision upon the legal implications at this stage, but it is clear that there will be a need for significant legal input (as there will be from other support services, including procurement, human resources and finance) and the project will need to be properly resourced if the challenging timescale is to be adhere to.
- 7.2 Clearly, there will be a need to settle upon the appropriate procurement route and prepare a contract (or contracts) that will best protect the Council's interests. There is a tendency to refer to 'partnering'. However, the Council's interests can only be protected by adequate contractual arrangements. The legal advice is likely to cover a broad range of issues.
- 7.3 Whilst the use of external legal resource may be required in any event, this will certainly be the case if a joint venture or arm's length arrangement is to be pursued. Some early input from independent advisers may be useful in helping to scope out and assess the range of options being considered.
- 7.4 The greater the innovation involved in the process, the more difficult it will be to achieve the deadline, as it is more likely that the Council will

need to follow the competitive dialogue process (which is both resource hungry and lengthy).

## **8.0 Risk Management**

8.1 The timescales involved in procuring a new arrangement by October 2011 are very challenging and present a risk to the Council which can be mitigated in the following ways:

- Agreement on the preferred model of delivery by end April 2010 at the latest
- Utilising existing models that have been procured by other authorities rather than developing a completely new arrangement
- Using a standard contract procurement route rather than entering into a 'Competitive Dialogue' route which is both costly and time consuming.
- Ensuring adequate resources are in place to facilitate the options analysis and procurement process. HR, legal and procurement support is essential to delivery of this project.

8.2 Selecting the appropriate service delivery model is an important decision because it begins to assist in establishing the long-term risk limitation and management levels for the Authority. The type of model selected can influence:

- The allocation of risk and hence cost (where and how risk is managed and priced), the more risk borne by the provider, the more costly the contract, the more risk taken by the client, the cheaper the contract but the risk of unexpected costs falls to the client (Cheshire East Council).
- The culture and structure under which the client and partners work together.
- The methods of appointing and working with the service provider and suppliers.
- Management of requirements and cost of the procurement process.
- The amount of overlap between client and provider – supervision/ administration.
- Client contingency that is required.

## **9.0 Background and Options**

9.1 The Adopted Highway is the Council's largest asset and is maintained to a safe standard through the identification of works required and the implementation of these by Contractors. The Council's highway network has a replacement value of £2.2bn and currently approximately £23M via revenue and capital is spent each year on its maintenance and improvement.

- 9.2 The highway network inherited by Cheshire East is deteriorating and after consistent under investment, this is estimated to be £100M maintenance backlog which to address would require double the amount of investment over 10 years ie. an additional £100M, which is about ten years worth at current spend levels.
- 9.3 The operating model inherited from Cheshire County Council involves a large in house team which is currently split between the Regeneration Service (Strategic Highways and Transportation) and the Environment Service (Highway Operations) within the Places Directorate.
- 9.4 Works vary from repairing potholes and replacing street lighting lamps to full carriageway reconstruction and improvement schemes. Works are identified as a result of regular inspections of the highway; surveys using purpose built scanning machines and reports from the public.
- 9.5 The works are delivered through a variety of contracts that are specific to a particular type of work. The Highway Maintenance Term Contract is by far the largest single contract and it relates to the day to day repairs undertaken on the footways, carriageways and to street lighting, relatively small scale structural maintenance works, including new lighting and signage (with a current maximum value of about £150k). 24hr emergency cover and winter maintenance arrangements. Larger works are tendered and let separately as individual projects.
- 9.6 Cheshire County Council appointed Edmund Nuttall Limited (now known as BAM Nuttall) as Highways Term Maintenance Contractor in 2004. The contract will end at the start of October 2011. Extension of the current contract has been considered; however there are significant drivers to securing improvements in service delivery that we believe cannot be achieved under the current service delivery model. These are:
- The projected reduction of capital funding allocated by DfT – current estimate is between a 15% and 40% reduction from 2011.
  - The major backlog of works necessary to stop the deterioration of and achieve the restoration of the highways network.
  - The priority our communities gave to highways during the recent pre-budget consultation.
  - The important effects of the highway service on customer perception.
  - The need to direct as much resource as possible into front-line delivery and investment into the network
- 9.7 The end of the current term contract provides the opportunity to fully explore the benefits that may accrue from approaching highway services in different ways. In order to address the issues outlined in 9.5 above and to deliver the savings agreed in the Medium Term Financial Strategy it is proposed that the procurement of the new highway services arrangements commences as outlined in this report.

9.8 The range and complexity of arrangements for the delivery of highway maintenance and related services have evolved considerably over the last five years. There are many examples of arrangements that have been implemented to suit the needs of a particular Authority. There is no right or wrong model and each Authority needs to take account of its own specific drivers for change, as well as taking into consideration best practice elsewhere. Some possible approaches are outlined below:

- Highways Term Contract with Professional services all in-house. Projects greater than £150k individually contracted with the private sector (ie. our current arrangements).
- Direct service delivery of routine maintenance and professional services in-house with private contractors delivering medium and larger construction works.
- Direct service delivery of routine maintenance and professional services in-house with partnership with a consultant to take the peaks in design demand, and private contractors delivering medium and larger construction works.
- All professional and operational services integrated into one contract and out-sourced.
- Joint venture, virtual or real, partnership for all highways professional and operational services.
- Council arms length company provision of operational services with internal professional services and projects greater than £500k contracted with the private sector.
- Council arms length company provision of operational services and framework arrangements for projects and professional services.
- All highway maintenance works contracted out and all professional services contracted out under separate contract arrangements.

9.9 A key issue for consideration, in relation to the procurement of highway services is the nature and scale of the 'client' role. Early models of professional services contracting out exhibited wide variations in this, with some Authorities retaining a significant in-house capability and others only retaining a very low level in terms of both numbers and experience. With the newer service delivery models involving more integrated and flexible partnering arrangements, this may be less of an issue, but will remain a key consideration in other cases. One significant issue to consider is transfer of risk and determining where best a risk should lie under the new arrangements as this may well shape the scope and nature of a client organisation.

## **10.0 Project management/delivery arrangements**

10.1 A project of this scale and complexity requires robust project management arrangements therefore, it is proposed that in addition to a Sub-Committee of the Cabinet the project will be managed through an officer project steering group comprising of;

- Strategic Director - Places
- Head of Regeneration
- Head of Environmental Services
- Legal representative
- Finance representative
- Procurement representative

### **11.0 Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

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## **APPENDIX 1**

### **Indicative Time Scale**

#### **Highways Services Contract - Procurement Process**

The indicative timescales for the various stages of the project are:

***Determine scope of contract & procurement route*** ***April 10***

***Start Procurement process*** ***May 10***

***( Procurement model will define detailed timetable)***

***Contract Award / Commence Mobilisation*** ***May 11***

***Contract Start*** ***October***  
***11***

The above process assumes that the Term Contract is not extended and the existing contract ends on 5 October 2011.