

## Report for Information

<b>Report to</b>	Norwich Highways Agency Committee 26 January 2012	<b>Item</b> <b>8</b>
<b>Report of</b>	Director of Environment, Transportation and Development	
<b>Subject</b>	Re-procurement of ETD Highways service	

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### Purpose

To report on the proposed re-procurement of Norfolk County Council's ETD Highways service.

### Recommendations

That the committee:

- (1) considers the report taken to ETD Overview and Scrutiny Panel on the 11 January 2012;
- (2) notes the recommendation and provide comments to the Norfolk County Council's cabinet for it to consider when it receives a report in March 2012.

### Financial Consequences

None at this stage

### Strategic Priority and Outcome/Service Priorities

This project contributes to the core role of Norfolk County Council under the element of "assessing and commissioning". Also, under the change and transformation agenda, we have undertaken to "redesign and rescale services, explore new delivery models and work locally".

This work is to be included in the service plan for 2012/15 under the service objective of "manage, maintain and improve Norfolk's transport infrastructure to support sustainable economic growth".

### Contact Officers

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### Background Documents

None

# Report

## Background

1. The County Council has had contract arrangements with private sector companies since April 2004 to assist with delivery of its services, which in practice has focussed on the delivery of highway related activities. These contracts end in March 2014.
2. A cross-party County Council Member Board, chaired by Councillor Graham Plant, was set up to oversee the development of the future contract proposals, based around previous work completed as part of the County Council's Strategic Review. The new contract is scheduled to commence from April 2014.
3. The current contract arrangements have served the council well and are considered to be an appropriate foundation for developing new arrangements from 2014.
4. The attached report details the proposals, recommendations and timescales agreed by the Board. It is proposed that through the re-procurement process the County Council will be liaising with and seeking input from Norwich City Officers. This is to ensure where possible that the new contract arrangements could support the Highways Agency Agreement if this is desired.
5. Key elements of the proposal in the attached report focus on improved performance and cost management, intergration of performance based incentives and the potential for encouraging local delivery where possible and practicable (including the possibility for apprenticeships).
6. As part of this process it is proposed to bring regular updates to Norwich Highways Agency Committee as the project progresses.

## ETD Highways Re-procurement

Report by the Director of Environment, Transport and Development  
and Head of Procurement

### Summary

The County Council has had contract arrangements with private sector companies since April 2004 to assist with delivery of “Environmental Services”, which in practice has focussed on the delivery of highway related activities. These contracts end in 2014.

A cross-party Member Board was set up to oversee the development of the delivery arrangements from 2014.

The Board has considered a number of options identified as part of the Strategic Review. Option F is described as “Re-procuring on a similar basis to the current contracts”. The board concluded that enhancements and improvements within this option should be investigated which led to consideration of 2 enhanced derivatives of this – “F1+” (as existing but contracting out Household Waste Recycling Centres (HWRC) management, subsidised bus services and home to school transport management and routine village and winter maintenance) and “F2+” (as existing with enhanced performance management).

The Strategic Review has already generated annual savings of £1.5m from renegotiation of the current contracts. Achieving year on year efficiency improvements and financial savings will be a key feature of the new contract. Benchmarking and cost comparisons indicate that the cost is unlikely to vary significantly between in-house and contracted out delivery. That decision is more about the style of authority members are seeking, the degree of control and flexibility members wish for and the appropriate balance between public and private sector provision.

Benchmarking and performance data considered in the Strategic Review suggests the current contract arrangements have served the council well and would be an appropriate foundation for developing new arrangements from 2014. That view was confirmed by the Procurement Board. However, Cabinet could significantly extend or change the current arrangements in a number of ways.

There is no one optimum model of service delivery in other authorities. Each council appears to select a model based on past experience, members’ preferences and local needs. A key feature of the choice will be the size of the client function the county council wishes to retain for contract management, budget control and other functions close to the democratic process and elected Members.

This report is a key step in re-procuring the contracts for significant elements of highway and other related service delivery. Cabinet will be asked in March to select a preferred approach for further work. Whilst this decision sets the broad shape of the contract, there will be an opportunity to consider a number of detailed elements of the contract over the next 9 months as we develop the formal tender documents.

Having considered the pros and cons and the style of contract that would best suit the needs of Norfolk, the cross party Member Board recommended option F2+.

### Action Required

Members are asked to:

- Consider the content of this report and comment on the recommendation of the procurement board in offering Cabinet any views on the nature and scope of the contract.

## 1. **Background**

- 1.1. The County Council has had contract arrangements with private sector companies since April 2004 to assist with delivery of "Environmental Services", which in practice has focussed on the delivery on highway related activities. These contracts end in 2014. One contract is with May Gurney for highway maintenance and construction works and one with Mott MacDonald for professional advice, scheme design and project management. Both companies work in partnership with the county council and work collaboratively with the in-house teams to achieve integrated service delivery.
- 1.2. Opportunities for break points were built into the existing contracts at the 5 and 8 year stages. A strategic review of Environment, Transport and Development (ETD) services, led by a cross party Member Board, was carried out in the second half of 2010. The review considered what services should be delivered, the volume of those services and who should deliver them until 2014. It was wide ranging and identified significant changes across the department.
- 1.3. In relation to the highways service the Strategic Review identified a number of budget and service transformational changes including:
  - Continuing the contracts with May Gurney and Mott MacDonald under re-negotiated arrangements, which provided savings of £1.5m each year. Changes to the initiative savings regime were agreed to make it more favourable to the county council and a range of performance indicators were introduced to link contractors profit to performance.
  - Considering the transfer of construction works to May Gurney, which has now occurred.
  - Progressing potential joint working with local town and parish councils, which has made significant progress with 57 councils already signed up to take on delegated functions and discussions underway with several more.
  - Carry out work to prepare for the procurement of a new contract to commence April 2014, including active consideration of potential collaboration with Suffolk County Council (SCC), with whom we are establishing a joint procurement project team, and/or the Eastern Highways Alliance which is currently undertaking a regional procurement for highways construction work.
- 1.4. Officers have been involved in discussions with Suffolk County Council regarding sharing of resources in a joint procurement process which has been endorsed by members in both counties. This will not result in Suffolk and Norfolk sharing the same contract, but will give the following benefits:
  - Sharing procurement costs and skills/knowledge.
  - Scope to benchmark the contracts and measure relative performance.
  - Common practices, specifications and contract terms give potential to use each other's contractors if this is beneficial to service delivery/cost.
  - Responds to market feedback that each contract value is large enough to stand alone and achieve good value for money (joining them together may restrict competition).

The contract development work will seek more consistency with neighbours by

exploring further the scope for consistent standards to improve benchmarking and ensuring as far as possible we can use each others contractors.

- 1.5. The Eastern Highways Alliance is an agreement for all the highway authorities in the east of England to work together to achieve efficiencies and cost reductions. The first initiative is a framework contract for medium sized highway improvement and structural maintenance works valued at between £50k and £5m. It therefore provides additional capacity, the ability for further benchmarking and an opportunity to use another contractor.
- 1.6. Cabinet considered the Strategic Outline Case for the review in August 2010. As part of that case a number of options for future service delivery were considered. Options A to J, with variants, are set out in an extract from the cabinet report, in Appendix A.

Options A to E are no longer relevant as they related specifically to the outcomes from the Strategic Review and renegotiations with the two current contractors are completed.

Options F to I, with the variations at the end of the appendix, should form the basis for scoping the new contract.

Option J (PFI) is probably neither realistic nor available given the current financial climate and the limited timescales available to us
- 1.7. A cross-party member board was set up to oversee the development of the delivery arrangements from 2014. This is chaired by the Cabinet Member for Planning and Transportation, Graham Plant and includes the Cabinet Member for Finance and Performance, Ian Mackie; Cabinet Member for Efficiency, Cliff Jordan; Deputy Cabinet Member for Planning and Transportation, Beverley Spratt; James Joyce from the Liberal Democrats and Richard Bearman from the Green party.
- 1.8. The Board has considered the options identified as part of the Strategic Review (F to I). Option F is described as “Re-procuring on a similar basis to the current contracts”. The board concluded that enhancements and improvements within this option should be investigated which led to consideration of F1+ (as existing plus contracting out HWRC management, subsidised bus services and home to school transport management and routine village and winter maintenance) and F2+ (as existing with enhanced performance management).
- 1.9. The current contract arrangements include a mix of in-house and outsourced provision for both blue and white collar services. The department maintains a client capability and oversight of the performance of both ‘partners’, whilst benefiting from private sector innovation and expertise. Senior managers from the partners are closely integrated with that of the department, meaning that they have a good understanding of the Council’s needs and are quick to reflect changes in emphasis and priorities, without the need for formal contractual revisions. This gives the Council a flexible and responsive service.
- 1.10. The County Council has carried out two benchmarking exercises, using an external specialist company working with the in-house contract manager, which have indicated that the price we are currently paying is at or below market rate.
- 1.11. The in-house design and works teams keep financial “trading” accounts to demonstrate that they can match the private sector rates. Both parts of the

organisation carry out work for third parties which generate some income. They also provide further assurance that the county council is paying a fair price.

1.12. The current contracts include an efficiency and initiatives element which has generated over £14m of savings up to the end of 2010/11 which have been shared between the contractor and the County Council. In 2010/11 the total initiatives saving was £2.7m of which the County Council retained £1.7m. It is anticipated that similar and additional arrangements will be included in the new contract to incentivise the successful contractor(s) to achieve year – on – year efficiency improvements and financial savings. All options will include a significantly enhanced suite of performance management tools which would influence:

- part of the contractors' payment,
- their scope to earn or lose contract extensions and,
- contract termination in whole or part.

1.13. The cross-party board have also indicated that they would like the new arrangements to contain provision for local apprenticeships. The new procurement will explicitly require the successful contractor(s) to develop and sustain an effective apprenticeship programme. The detailed requirements will be included in the draft tender documents developed in 2012.

## 2. Options considered by the Board

2.1 Appendix A details the procurement options developed from the Strategic Review. The cross – party member board concluded that option F should be dismissed as it misses the opportunity to bring the arrangements up to date and fully develop the benefits of the renegotiation. Therefore, options F1+ and F2+ were developed (as described in paragraph 1.8 and appendix B). The board considered that F1+ would not be appropriate as incorporation of the waste and transport elements would disrupt existing successful arrangements and would bring together services which may not be suitable for one bidder and hence value for money may be compromised. Option H was considered a less attractive option by the board as outsourcing all services to a single provider would leave NCC with a “thin” client resulting in a considerable reduction of direct control of the contractor’s performance with a consequent risk of poor quality work, a reduction in value for money for the county council and a reduced service to councillors, parish and town councils and the community.

2.1.1 Board members indicated that they wished to build on the existing contract arrangements and this report includes the further analysis of options F2+ – as existing with enhanced performance management, G - outsource all “blue collar” service to one provider and I – a mixed economy approach.

2.2 Option F2+ -

2.2.1 This option would build on the current successful arrangements and develop some of the improvements achieved in the recent renegotiation for example, more refined performance indicators and more pressure to encourage innovation, initiatives and reduce costs. There would be two contracts, as now.

2.2.2 The works contract would include: all construction and bridgeworks; routine

maintenance work such as grass cutting, weed spraying, gully emptying, safety fence repairs, road lining and cats eyes; surface dressing and resurfacing.

The total value is about £43m.

- 2.2.3 The professional advice, scheme design and project management contract would include: project management, scheme feasibility and design, stakeholder consultation, bridge inspection and assessment; traffic modelling; public transport and environmental advice and household waste recycling centre design and project management (but not the operation of Household Waste Recycling Centres).

The total value is about £4m.

- 2.2.4 Under this arrangement the in-house role as highway authority will be: asset and programme management; project management scheme feasibility and design, stakeholder consultation, bridge inspection and assessment; highway maintenance, area and contract management; highway rangers, winter maintenance and emergency response; network management and safety; highways development control and urban traffic control room.

Total value is about £19m.

## 2.3 Option G

- 2.3.1 This option would outsource the remaining highways "blue collar" service to one provider. It would combine all the work currently carried out by May Gurney plus the in-house works team who carry out routine village (highway rangers) and winter maintenance, emergency response, tar and chip patching and layered bituminous patching. This option would remove all in-house "blue collar" works capacity and rely wholly on the contractor for all emergency response to incidents on the highway. In addition it would be prudent to include the work currently carried out by Mott MacDonald in either one or two contracts.

- 2.3.2 The works element would include: all construction and bridgeworks; routine maintenance work such as grass cutting, weed spraying, gully emptying, safety fence repairs, road lining and cats eyes; surface dressing; resurfacing; highway rangers, winter maintenance and emergency response.

Total value is about £56m.

- 2.3.3 The professional advice, scheme design and project management contract would include: project management, scheme feasibility and design, stakeholder consultation, bridge inspection and assessment; traffic modelling; public transport and environmental advice; household waste recycling centre design and project management.

Total value is about £4m.

- 2.3.4 Under this arrangement the in-house role as highway authority will be: asset and programme management; project management scheme feasibility and design, stakeholder consultation, bridge inspection and assessment; highway maintenance,

area and contract management; network management and road safety; highways development control; urban traffic control room.

Total value is about £6m.

## 2.4 Option I

- 2.4.1 This option would subdivide the work into a number of smaller packages. It would require the County Council to have a direct contractual relationship with specialist contractors, such as professional services (as now), surfacing, surface dressing, scheme construction, and each of the specialist routine maintenance elements i.e. gully emptying, road lining, traffic signal maintenance, grass cutting etc. This option would increase the County Council client contract management requirement but would reduce the contractor's overheads and costs in managing the supply chain. It would result in a significantly different approach from the current arrangements. If members prefer this option they will need to indicate whether it would wish for such an arrangement to be based on the scope of work in paragraph 2.2 above (option F2+) or in paragraph 2.3 above (option G). Option I will require more management input from the County Council to manage it effectively.

## 3.0 Options Analysis

- 3.1 To assist the procurement board to determine a preferred model for the new arrangements, pros and cons of each option were presented and these are set out in appendix B. The Critical Success Factors (CSFs) used for the Strategic Review, are set out in appendix C. Any impacts on CSFs are included in the pros and cons.
- 3.2 Officers have had regional discussions to compare approaches, to share market intelligence and to consider the scope for wider joint working and collaboration. Each authority in the region has developed a form which suits its priorities, style and approach. There are no two authorities adopting the same approach and some appear to be moving in opposite directions. The benchmarking and cost matching between the in-house and contractor teams suggests that the decision on whether to carry out work in-house or to contract it out is not likely to result in a significant change in the cost of doing the work. Officers believe it is about the style of authority members would wish to operate and what members feel most comfortable with.
- 3.3 If members wish to adopt an approach significantly different from the current arrangements, option I would be appropriate. Option I offers more opportunity for regular market testing with better NCC links to specialist contractors and will be very flexible as budgets change allowing easier contract termination. However, there will be larger ongoing procurement and contract management costs and the loss of main contractor's private sector negotiating flexibility, with NCC carrying the risk of poor supply chain contractors. In addition it may be more difficult to adopt more widespread use of ICT solutions with multiple smaller contractors. The emerging Eastern Highways Alliance contracts could form an integral part of an option I solution. On the other hand, if the current approach is preferred, Options F2+ and G offer variants to build on the current successful arrangements.
- 3.4 Options F2+ and G retain experienced staff, give access to specialist staff as required and ensure resilience through peaks and troughs, with robust contract



management arrangements through enhanced performance management. However, it may be difficult to define effective indicators and the county council will pay the contractor to manage the supply chain.

- 3.5 In addition, option F2+ retains more internal/external challenge and benchmarking, whilst option G will remove the risks and costs of managing an in-house blue collar service but it will make members more remote from operational activity by contracting out the existing successful highway ranger and winter maintenance service raising significant TUPE transfer issues with the risk of leaving NCC less resilient in the case of contractor failure, but that could be mitigated by Eastern Highways Alliance contracts. The loss of in-house skills would be difficult to retrieve in the short term.
- 3.6 Option I has a more active engagement with the market through more regular market testing and is likely to lead to more significant price fluctuations as market conditions change which will have an impact on the size of the deliverable programme whereas options F2+ and G will vary as annual indices change which tends to dampen the impact of market cost changes, giving more stability in deliverable programmes.
- 3.7 Members have previously expressed support for requiring successful bidders to develop an effective apprenticeship programme. Experience tends to suggest that such programmes are more effective with larger companies who have the skills and resources to support such programmes. This would tend to favour adopting options F2+ or G.
- 3.8 Contract lengths for option I could be very flexible ranging from annual up to about 5 years, depending on the nature of the work. Options F2+ and G would more naturally lend themselves to longer contracts. The current arrangement of a ten year contract with break points at five and eight years has worked well striking a balance between the opportunity to curtail the contract if required but giving the contractor some certainty of forward work to encourage a long term perspective. Emerging best practice suggests a more dynamic relationship between contractor performance and contract duration, for example a five year initial contract with scope to earn or lose extensions annually based on performance. Total contract durations of ten to fifteen years are not uncommon. However contracts can tend to become more profitable for the contractor and less cost effective for the commissioner as time passes, because of changing requirements, therefore the maximum contract duration should perhaps be around ten years.

#### 4.0 **Key Milestones**

- 4.1 This decision is the first stage of a large, complex process. If Overview and Scrutiny Panel supports the recommendation of the Board, the key milestones of the process are;
- Cabinet to decide scope of contract - 5 March 2012
  - Outline Business Case and approval of OJEU notice - autumn 2012
  - Invite bids - early 2013
  - Evaluate bids/competitive dialogue – summer 2013
  - Award contract - autumn 2013

- Start of new contract – April 2014

Cabinet decision will be required on, the OJEU notice, bidders to be invited and contract award.

## 5.0 **Conclusion**

- 5.1 Benchmarking and performance data considered in the Strategic Review suggests the current contract arrangements have served the council well and would be an appropriate foundation for developing new arrangements from 2014. That view was confirmed by the Procurement Board. However, Cabinet could significantly extend or change the current arrangements in a number of ways.
- 5.2 There do not appear to be any emerging optimum common models of service delivery in other authorities. Each council appears to select a model based on past experience, members' preferences and local needs. A key feature of the choice will be the size of the client function the county council wishes to retain for contract management, budget control and other functions close to the democratic process.
- 5.3 It would be useful to adopt a model which encourages employment of local people through the appropriate mix of in-house employed staff, appropriate contract requirements and carefully chosen evaluation criteria. Apprenticeships should be a key requirement.
- 5.4 The new contract should build on the renegotiated performance indicators and make a more explicit link between performance, payment and contract duration.
- 5.5 Benchmarking and cost comparisons indicate that the cost is unlikely to vary significantly between in-house and contracted out delivery. It is more about the style of authority members are seeking, the degree of control and flexibility members wish for and the appropriate balance between public and private sector provision.
- 5.6 Having considered the pros and cons and the style of contract that would best suit the needs of Norfolk, the cross party Member Board recommended option F2+
- 5.7 This report is a key step in re-procuring the contracts for significant elements of highway and other related service delivery. Cabinet will be asked in March to select a preferred approach for further work. Whilst this decision sets the broad shape of the contract, there will be an opportunity to consider a number of detailed elements of the contract over the next 9 months as we develop the formal tender documents.

## 6.0 **Resource Implications**

### 6.1 **Finance :**

None at this time

### 6.2 **Staff :**

Each of the options considered by the cross – party board will have staffing implications. Option G and possibly option I would transfer more work to the private sector and would involve a staff transfer. Equality issues associated with any staff transfer will be addressed during the formal Transfer of Undertakings (Protection of

Employment) Regulations (TUPE) processes, including formal consultation with affected staff

6.3 **Property :**

Sharing of highways depots with Suffolk County Council will be explored as we work with them in our respective procurement processes. Consideration will be given to the availability of property assets as the contract conditions are developed and during the competitive dialogue process

6.4 **IT :**

Changes and compatibility to system requirements will be considered during the procurement process and competitive dialogue

7.0 **Other Implications**

7.1 **Legal Implications :**

NP Law will be engaged throughout this procurement process to mitigate any legal issues

7.2 **Human Rights :**

None

7.3 **Equality Impact Assessment (EqIA) :**

It is anticipated that the evaluation process of any bidder will assess their approach to equality. Staffing issues would be considered as part of TUPE transfer if needed.

7.4 **Communications :**

Nothing at this time

7.5 **Health and safety implications :**

Nothing at this stage

7.6 **Any other implications :** Officers have considered all the implications which members should be aware of. Apart from those listed in the report (above), there are no other implications to take into account.

8.0 **Section 17 – Crime and Disorder Act**

None

9.0 **Risk Implications/Assessment**

There is always uncertainty about the ultimate market response to any major procurement. There are risks associated with limited market response and/or failure to achieve the expected financial outcomes from any reprocurement exercise.

A shared procurement programme with Suffolk County Council will enhance the attractiveness of this procurement to the market.

## Action Required

Members are asked to;

- (i) Consider the content of this report and comment on the recommendation of the procurement board

## Background Papers

Cabinet (24 January 2011) - Environment, Transport and Development Strategic Review – future service delivery method

ETD Overview and Scrutiny Panel (17 November 2010) – ETD Strategic Review – updating the Panel on progress, including the findings of Workstream 3 (size and prioritisation of the highway capital programme)

ETD Overview and Scrutiny Panel (12 January 2010) – ETD Strategic Review – updating the Panel on the conclusions of the Review, and how work will be taken forward

Cabinet (9 August 2010) - Environment, Transport and Development Strategic Review – Strategic Outline Case

Cabinet (12 July 2010) – Strategic Review of Environment, Transport and Development

## Officer Contact

If you have any questions about matters contained in this paper please get in touch with:

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### Procurement Options developed from the Strategic Review

#### Extract from Cabinet report in August 2010 setting out procurement options

#### 3.2. Options

Options not involving re-procurement in 2011

##### A) Do nothing

3.2.1. In reality this option exists only as a basis for comparison. We would neither renegotiate the existing contracts, nor exercise the break clauses. The volume of capital schemes would reduce as a result of reduced budgets; the infrastructure would deteriorate further as a result of reduced maintenance, with no benefit from reduced unit costs.

##### B) Renegotiate both contracts, with no significant change to In-House delivery services

3.2.2. In this option, we would successfully renegotiate both the May Gurney and Mott MacDonald contracts and, therefore, would not exercise the break clauses. Savings might be achieved through:

- Reduced supplier margins;
- More efficient programming;
- Efficiencies in May Gurney's supply chain;
- Asset rationalisation

3.2.3. Compared to a re-procurement, this option would have the considerable attraction of delivering benefits quickly. Contract changes could be agreed around Christmas, and any reduction in supplier margins would kick in immediately. Other efficiencies could be delivered over the course of 2011. For the period to the end of the contracts in March 2014, this option would deliver benefits for some 30 months. By comparison, a major re-procurement would only start to deliver benefits around September 2012, a period of 19 months. So in crude terms such a re-procurement would need to deliver about fifty per cent greater annual cost savings than a renegotiation to be justifiable.

3.2.4. It might be possible to negotiate suitable KPIs into the May Gurney contract.

3.2.5. The scope of renegotiation would be limited by procurement law. This prevents us from making any change which would give additional work to the contractor, beyond that envisaged in the original procurement; from 'changing the economic balance of the contract' to the contractor's advantage; or from changing the contract so fundamentally as to make it, in effect, a new contract.

3.2.6. Given these constraints, the main disadvantages of this approach are:

- The lack of an opportunity to outsource in order to make savings before March 2013;
- The constraints on what the partners, and in particular May Gurney, could offer, given the comparatively short term left until contract expiry in 2014 – the lack of future certainty would, for example, limit their ability to persuade their supply chain to invest heavily in change.

The constraints on outsourcing further Highway works activity to May Gurney.

##### C) Renegotiate both contracts and transfer more Highway works to May Gurney

3.2.7. In this option, we would, in addition to the changes above reduce the in-house workload by transferring some work currently done by NCC to May Gurney, transferring staff where appropriate.

3.2.8. This option would potentially deliver increased savings, on the assumption that the existing partner could deliver these services more efficiently than the in-house alternative. It would also transfer service performance risk and some staff risk from NCC.

3.2.9. We would need to ensure that NCC retained the capacity to deliver winter maintenance.

#### **D) Renegotiate both contracts and minimise the In-House delivery role**

3.2.10. In this option we would, in addition to the approach in Option C, seek to transfer some routine maintenance work from in-house to the NORSE Group, our wholly-owned company, who would deliver the Highways Ranger service, alongside the street-scene work they do for some boroughs.

3.2.11. This approach could deliver savings through synergies and possibly through more effective management of the workforce.

3.2.12. The approach could either involve wholesale transfer of the Ranger service to NORSE or piloting the approach in Great Yarmouth, where NORSE has a particularly extensive operation.

3.2.13. The approach carries with it the risk that, if NORSE loses contracts with the Districts in the future, some economies of scope could be lost and the cost to the Council could increase. However NORSE has an existing extensive grounds maintenance section that could potentially mitigate this.

3.2.14. Any transfer to NORSE without competition means that value for money has not been market tested. In addition, the Council ultimately covers all risk relating to NORSE, including service performance risk and, in particular, pensions risk.

#### **E) As B – D above but terminate the Mott MacDonald contract and use other frameworks.**

3.2.15. It would in theory be possible to renegotiate with May Gurney but simply to terminate the contract with Mott MacDonald without renegotiation.

3.2.16. Mott MacDonald could be replaced with contractors from other framework agreements, or indeed we could probably continue to use Mott MacDonald via such a framework.

3.2.17. However, in light of the relatively low level of effort involved in negotiating with Mott MacDonald, there is no obvious merit in this approach.

3.2.18. It is worth noting that the contract with Mott MacDonald gives no guarantee of work. As such, it would be possible to retain the existing contract whilst allocating most of the remaining, and inevitably reduced, workload to the in-house design teams, minimising the council's redundancy costs.

#### **Options involving re-procurement in 2011**

##### **F) Re-procure on a similar basis to the current contracts**

3.2.19. It would be possible to exercise the break clauses and re-procure on a similar basis to the current arrangements, keeping the balance of in-house and outsourced work the same.

3.2.20. This would result in a somewhat faster procurement, as there would be no issues around TUPE of staff from the Council to the contractor. This would of course still be TUPE from the existing to the new contractors.

3.2.21. Such an approach would not have any impact on costs of winter maintenance or on the efficiency of the Highway Works team.

### **G) Outsource all 'blue collar' services to one provider**

3.2.22. In this option, the work currently done by May Gurney and that currently done by the Highway Works team would all be outsourced to a single provider.

3.2.23. This approach would, with a well-drafted contract, transfer delivery risk and most or all staff risks (liability for pension entitlement already accrued might not transfer).

3.2.24. Design and consultancy services would be provided by a second provider.

3.2.25. In this model there would be some scope for 'finger pointing' between the partners, though this could be mitigated by tying the partners together via some sort of formal alliance model.

3.2.26. There would be a number of options for the size of the client side, from a very small function concerned with strategic direction and contract management through to a broader function which will continue to carry out some of the design role.

### **H) Outsource all services to a single provider**

3.2.27. In this model, both design/consultancy and 'blue collar' services would be outsourced to a single provider who would deliver services against agreed key performance indicators.

3.2.28. This approach would place responsibility for performance squarely on a single provider but its success would be heavily dependent on the council's ability to define 'good' performance at the outset and enshrine it in contract.

3.2.29. There could be market testing provisions for major schemes and for periodic benchmarking of routine maintenance and consultancy.

3.2.30. This model would tend to imply a 'thin' client side.

3.2.31. The main risks would be inflexibility – of both performance and cost – and a possible lack of responsiveness to local concerns.

### **I) Mixed Economy Approach**

3.2.32. All works undertaken within the department could be packaged in a way that could lead to procurement being carried out to various providers according to the services and external market availability. For example, construction work could be procured through one provider, while, for example, the NORSE group could manage some routine works inline with Street Scene activities they currently undertake in some Districts.

3.2.33. Within this Mixed Economy Approach, there are a variety of options that could be considered and could allow for synergies across services to be packaged together so that they could be delivered by a common provider. Some of these options include forming a Joint Venture with an external contractor, which could open up investment or other trading opportunities.

#### **J) PFI**

3.2.34. This model would be similar to option H above but would involve private finance of an agreed set of capital improvements.

3.2.35. Such an approach may be unattractive in the current climate because it implies a very long term commitment to a given level of expenditure. PFI credits from central government, which have previously made PFI schemes attractive, may be unavailable in the current climate.

#### Variations on the above options

3.2.36. The 'blue collar' service element in any of the options described above could be expanded to include services such as maintenance of Park and Ride sites and, potentially, management of household waste recycling centres (once the current contract expires in 2014). As at present, the 'blue collar' service could include miscellaneous civil engineering works, such as capping of landfill sites.

3.2.37. The design and consultancy element could be expanded to include strategic planning, transport planning and other services.

3.2.38. In principle, any of models F to J could be run on a cross-border basis.

3.2.39. Similarly, if current discussions about a regional highways alliance bear fruit within timescales, major schemes could be left out of scope and delivered through that route.

3.2.40. Major schemes could in any case be procured separately, either excluding them completely from the long-term contractual arrangements or with an option to procure via the long-term arrangements or separately.



## Options with Pros and Cons

## Option F – as existing

Pros	Cons
Sustains current achievement of critical success factors	No development of status quo
Continuity of existing successful approach	Scope to increase incentives for driving down costs not achieved.
Retains experienced staff	Limited links between partners
Access to specialist staff as required	Different payment mechanisms for the two contractors
Retain internal/external challenge and benchmarking	Poor alignment with neighbouring authorities
Resilience through peaks and troughs	Difficult to harmonise systems
Public and member confidence in NCC direct control in key areas	Limited client powers, limited link between performance and payment
Robust contract management arrangements	Paying contractor to manage supply chain

**Option F1+ – as existing plus contracting out HWRC management, subsidised bus services and home to school transport management and routine village and winter maintenance**

Pros	Cons
Sustains current achievement of critical success factors with improved performance management leading to more efficiency	Risk of disrupting existing high performing travel and transport and waste management services which are already contracted out under separate arrangements
Sustains current achievement of critical success factors	Reduces flexibility for joint working with partner organisations and devolution of services where appropriate.
Continuity of existing successful approach	Limited synergy between diverse services
Large contractor may be able to provide a funding opportunity for capital investment, or new sites, for new Recycling Centres	Long term payback of 20-25 years required for waste contract investment which is unlikely to be consistent with term for highways contract.
Robust contract management arrangements	Would involve significant TUPE transfers
Access to specialist staff as required	Different payment mechanisms for each contractor

*continued.../*

<b>Pros</b>	<b>Cons</b>
Retain internal/external challenge and benchmarking	Limited links between partners
Proven resilience through peaks and troughs	Poor alignment with neighbouring authorities
Public and member confidence in NCC direct control in key areas	Difficult to harmonise systems
Retains experienced staff	Maybe difficult to find a suitable single contractor
More turnover may attract bidders, scope for contractor to spread senior manager overheads	Paying contractor to manage supply chain
Opportunity for wider range efficiency savings	Limited client powers, limited link between performance and payment
More scope for contractor to re-deploy staff as budgets change	Less focused contract management - Could require client re-organisation

**Option F2+ – as existing including enhanced performance management**

<b>Pros</b>	<b>Cons</b>
Sustains current achievement of critical success factors with improved performance management leading to more efficiency	Potential difficulty in defining effective indicators
Builds on existing successful approach	Greater client monitoring costs
Retains experienced staff	Limited links between partners
Retain internal/external challenge and benchmarking	Different payment mechanisms for each contractor
Access to specialist staff as required	Difficult to harmonise systems
Robust contract management arrangements	Paying contractor to manage supply chain
Resilience through peaks and troughs	
More incentive for contractor/partner to improve performance and more straightforward to reduce contract period or terminate contract for poor performance	
Greater clarity for contractor about expectations	

### Option G - outsource all “blue collar” service to one provider

Pros	Cons
Sustains most current achievement of critical success factors with improved performance management leading to more efficiency	No significant adverse impact on critical success factors but will disrupt existing effective winter and emergency response arrangements
Builds on existing successful approach	Members more remote from operational activity
Retains experienced office based staff	Contracts out existing successful highway ranger service
Resilience through peaks and troughs	Significant TUPE transfer issues
Retain internal/external challenge and benchmarking for “white collar” work	Less opportunity for challenge and in-house/contractor benchmarking
Access to specialist staff as required	In house trading profits lost for works
Robust contract management arrangements	Less resilience in case of contractor failure, but could be mitigated by Eastern Highways Alliance contracts
Public and member confidence in NCC direct control in most key areas	Loss of in house skills which will be difficult to retrieve
Reduced specialist support costs, for example HR, Finance	Paying contractor to manage supply chain
Some potential for overhead economy of scale for contractor	

### Option H – outsource all services to a single provider with a “thin” client side

Pros	Cons
Sustains many current achievements of critical success factors	Some adverse impact on critical success factors, in particular access to the required client side skills and dependence on the contractor for winter and emergency response
Clearer accountability to the contractor for delivery	Significant loss of member control
More flexibility to re-direct resources as priorities change	Contracts out existing successful in-house services with consequent loss of employed skills
Minimal needs for NCC premises	Risk of clients being too small to manage contractor effectively
Scope to reduce support services	Major TUPE transfer issues
	Limited opportunity for challenge and in-house/contractor benchmarking
	Less resilience in case of contractor failure

	In house trading profits lost
	Reliant on contractor for quality control, standards and NCC reputation

**Option I – mixed economy approach**

<b>Pros</b>	<b>Cons</b>
Sustains current achievement of critical success factors with improved performance management leading to more efficiency	Larger ongoing procurement and contract management costs
Promotes local employment	NCC carries the risk of poor supply chain contractors
More opportunity for regular market testing and benchmarking	Lose innovation because of limited contractor challenge
Very flexible as budgets change	Potential quality inconsistency
Easier to terminate contracts	Loss of main contractor private sector negotiating flexibility
Better NCC links to specialist contractors	Extensive use of IT could be a challenge with multiple small contractors
Scope for different contract arrangements for different types of work	

### Critical Success Factors

The Strategic Review identified critical success factors to determine criteria to evaluate the various options for service. Whilst not all are directly applicable they should be applied to the procurement options in addition to other, more general, pros and cons. The critical success factors were:

1. Reduced cost of managing the existing assets and delivering services. This should be measured in terms of unit costs and be in addition to any reduction in works.
2. Retain sufficient client side skills to protect our highway authority responsibilities and ensure we can challenge / monitor contractors effectively.
3. Maximise the usage, or realisation, of existing property and other assets. This will be considered in line with the Norfolk Forward Accommodation Strategy.
4. Retain capacity to deal with severe winters. Winter gritting and winter resilience is a key service to the department
5. Have access to resources that can be flexible to respond to the challenge of varying workloads. This will ensure that any upturn, or downturn, in financial support can be maximised with minimum effect.
6. Ensure we have capability to deliver essential infrastructure for the County, if funding opportunities arise.
7. Maximise opportunities for service innovation and efficiency savings.
8. Facilitates joint working with partner organisations and devolution of services where appropriate.
9. Enables good engagement with residents, businesses and parish Councils.