

<i>Local Members Interest</i>
NA

Prosperous Staffordshire Select Committee – 12 February 2014

Infrastructure+

Recommendation

That the Select Committee consider the report on the Infrastructure+ proposals along with the attached final business case and make any comments and recommendations to Cabinet.

What is the Select Committee being asked to do and why?

At the Prosperity, Skills and Education Select Committee meeting held on 19 December 2013, it was agreed that the proposals for Infrastructure+ would be presented to the Committee for consideration prior to any contract award decision by Cabinet.

On the 19th February cabinet will consider the following recommendations

1. That the County Council enters into a strategic partnership with Amey for the delivery of the County Council's outcomes in relation to infrastructure assets.
2. That the County Council enters into a contract with Amey for the specific elements of service delivery and to establish governance and administration of the partnership.
3. That the Deputy Chief Executive and Director for Place, in consultation with the Cabinet Member for Economy and Infrastructure, be authorised to agree the final details of the scope of services and contract conditions.

The report below sets out a summary of the project, the process undertaken and the proposals and its benefits. A full business case supporting the recommendations is appended to the report.

Report of the Director for Place and Deputy Chief Executive

1. What is this item all about?

- 1.1. We are nearing the conclusion of a procurement process to select a partner to deliver services in relation to physical infrastructure.
- 1.2. The approach has been different from traditional construction and maintenance contracts in that the specification has been based around the

achievement of outcomes rather than traditional input/output type specifications.

- 1.3. In order to achieve an outcome based approach a competitive dialogue process has been undertaken and a preferred bidder selected through that process.
- 1.4. This is aligned to the council's approach of looking for new and innovative ways of delivering results in tougher economic times. The process has been challenging for the authority and the bidders as it has been a fresh approach that has challenged the County Council to produce outcome based specifications and for bidders to present solutions that reflect their capabilities but in ways which maximise the outcomes the County Council is seeking.
- 1.5. It is also a different approach in that we are seeking an arrangement that allows growth outside of just the County Council's work area. Acknowledging that there are other clients with a significant role in infrastructure construction and maintenance and benefits can be gained across the public sector and with private sectors clients all to the benefit of economic growth in Staffordshire.

2. Why change?

- 2.1. The current contract for highway maintenance functions comes to an end in April 2014. This contract needs to be replaced or alternative methods put in place.
- 2.2. We can take the opportunity to engage with a partner around delivery of outcomes for the condition and use of the infrastructure for which we are responsible, rather than more traditional input/output type arrangements.
- 2.3. Traditionally infrastructure maintenance works have been delivered across different service areas by different delivery mechanisms. However, this presents a potential opportunity to maximise the benefits from a unified approach to their delivery.

3. Why not do this ourselves or replace existing arrangements as is?

- 3.1. Currently around 80% of the total County Council's spend on infrastructure is with private sector organisations mainly through the existing highway maintenance contract and the Midlands Highway Alliance framework contract.
- 3.2. The advantages from private sector involvement in infrastructure works include economies of scale and lead to cost reductions in HR, Health & Safety, finance and material purchasing. Also developments in IT solutions will allow improved and more effective communications with residents, businesses and Members, these are particularly attractive but expensive for the County Council to implement in isolation.

- 3.3. Soft market testing work and the procurement process undertaken have demonstrated additional benefits in a different approach by widening the scope of the work from just highway maintenance and including additional clients to be able to access the contract.

4. What outcomes are we seeking?

- 4.1. We will create a strategic partnership between the County Council and Amey. This will allow a focus on outcomes to be delivered over the life of the partnership. It will provide the ability for the local authority to be flexible around what it wants to achieve and the financial resources to be employed. It will be governed by agreed outcome measures that can be set in line with financial allocations. It will support the three County Council priority outcomes:

- Be able to access more good jobs and feel the benefits of economic growth
- Be healthier and more independent
- Feel safer, happier and more supported in and by their community

- 4.2. The specific deliverables of the project are:

- To maintain and improve the condition and usability of our physical assets;
- To reduce cost of delivering the services and reach the lowest whole life cost of asset ownership;
- To involve communities in decisions and delivery of infrastructure;
- To improve customer satisfaction in Staffordshire County Council and to enhance its reputation.

5. What services are in scope?

- 5.1. The services within scope of this project are

- Highways maintenance
- Highway improvements and development
- Professional services
- Country parks and rights of way
- Shugborough grounds maintenance

- 5.2. The associated annual revenue budget is approximately £36m and the annual capital budget is between £42m and £27m over the next five years.

- 5.3. County Fleet services are significantly involved in the current delivery of these services and impacts and options around these will be further explored and considered during contract mobilisation.

6. What Strategic Options were considered?

6.1. A number of strategic options for the delivery of infrastructure outcomes were considered by informal cabinet in March 2013. These were

- Status quo: Re-procure a highways term maintenance contract and in house services continue to be delivered in house,
- Integrated delivery of services in scope within “The City Deal” delivery mechanism,
- Physical infrastructure partnership: a strategic partnership based on a contract,
- District-based delivery of services in scope,
- Delivery of services via contracts with multiple providers.

6.2. The infrastructure partnership was selected by informal cabinet but with the option to vary the scope of the services delivered based around ongoing value assessments. An example of this being grass cutting which is currently largely delivered by districts and boroughs in urban areas and many parishes. We would retain the flexibility to extend this into street scene type services if this presented best value.

7. What procurement process did we follow?

7.1. A competitive dialogue process was chosen as we sought a fundamental change to the way we will specify and manage the contract.

7.2. This consisted of a prequalification stage to select five companies to take part in phase one of dialogue and then submit outline solutions. From this, three were selected to develop final solutions. The final solutions were submitted in December 2013 and evaluated by a core evaluation team in December 2013 and early January 2014.

7.3. Amey was selected as the preferred bidder by delegated decision of Mark Winnington on 21 January 2014.

8. Who were the bidders?

8.1. The bidders entering the first dialogue phase were

- AMEY LG Ltd
- Balfour Beatty Living Places Ltd
- Enterprise Mouchel (EM) Ltd
- Kier May Gurney/WSP: MGWSP (unincorporated Joint Venture)
- Skanska Construction UK LTD

8.2. All of these companies are established highway maintenance and consultancy companies with varying degrees of capability in relation to construction and wider professional services.

- 8.3. The prequalification stage assessed their capabilities in terms of technical ability, financial standing, experience of similar work areas and approaches to employee relations and equality and diversity.
- 8.4. The three final bidders were
- AMEY LG Ltd
 - Balfour Beatty Living Places Ltd
 - Kier May Gurney/WSP: MGWSP (unincorporated Joint Venture)

9. How were the bids evaluated?

- 9.1. A core evaluation team was established consisting of the Deputy Chief Executive and Director for Place, Commissioner for Highways and the Built County, Commissioner for Rural County and Head of Place Delivery.
- 9.2. The core team were assisted by specialists from legal, HR and finance and around 40 members of staff from operational teams who worked over the Christmas period to provide valuable insights to the solutions put forward.
- 9.3. Bids were evaluated as follows on both Price/Affordability (Commercial), and Quality (Technical) criteria to identify the proposal most economically advantageous to the County Council.
- Commercial = 40% of overall marks available
 - Technical = 60% of overall marks available
- 9.4. The Project Board agreed the evaluation criteria and shaped its structure to ensure that considerable weighting was given to the Bidder's response regarding how they propose to work with us to achieve outcomes as well as ensuring the demonstration of technical competence.
- 9.5. The scored outcome of the evaluation is shown in figure 9 of the final business case.
- 9.6. All three stages of the procurement and evaluations were audited and all received substantial assurance assessments.

10. What are the advantages of the preferred bid?

- 10.1. The commercial response from Amey was consistently stronger across all elements of the commercial model, with the lowest prices. Their commercial approach ensures that the County Council will achieve best value in maintenance and project delivery, project management costs and continuous improvement plans.
- 10.2. Amey has committed to a reduction in routine maintenance costs of 25% in the first year of the contract. This equates to an ongoing benefit of

£1.87million which, in the first year is offset by mobilisation costs of £0.67million. There are further efficiencies in subsequent years. This will result in direct reduced direct costs to the County Council.

- 10.3. In addition the costing exercise as part of the commercial submission indicates cost reduction of 10% in capital scheme works. This will present non-cashable savings that will allow more work to be undertaken for the capital grants available.
- 10.4. The calculated cost reductions for the first five years of the contract are £21.5m as shown in the table below. These are based on the same level of output being achieved and delivered through efficiency gains.

Continuous Improvement Plan - Cumulative Savings Against Baseline Costs							
Work Area	Baseline 2013-14 £m	Provisional Budget 2014-15 £m	Year 1 2014-15 £m	Year 2 2015-16 £m	Year 3 2016-17 £m	Year 4 2017-18 £m	Year 5 2018-19 £m
Routine Maintenance Crews	6.716	6.716	1.679	1.780	1.880	1.981	2.082
Gully Emptying	0.748	0.748	0.187	0.198	0.209	0.221	0.232
WM - Gritting & Salting	0.877	0.877		0.013	0.026	0.039	0.053
			1.866	1.991	2.116	2.241	2.366
There are additional costs to be met from these savings:							
		Year 1 Mobilisations costs	0.670				
		Cashable Savings	1.196	1.991	2.116	2.241	2.366
Operational Delivery - surface dressing	7.860	4.860	0.486	0.559	0.632	0.705	0.778
Capital Projects	18.025	13.025	1.303	1.498	1.693	1.889	2.084
		Non-cashable Savings	1.789	2.057	2.325	2.593	2.862

- 10.5. It is not possible to give an overall cost of works as this is not definable in advance and is subject to revenue budget allocation and capital grant allocation. The services are based around maximum achievement for budget available rather than cost of a defined service.
- 10.6. The solution includes the introduction of an operating model for reactive maintenance that will reduce repair times and include integration with the County Council's customer relationship management system allowing direct status updates to customers.
- 10.7. This means that people reporting problems will be able to easily see what is happening with the issues they have reported. They will have information in relation to proposed future works. Also they will have more information about how and why work is or isn't undertaken. It is intended that the basis of spending decisions is transparent to communities so they can understand and influence them.
- 10.8. There will be reduced repair times as organisation of the work will be improved through new technology.
- 10.9. The proposal introduces the concept of an Ecosystem model which is intended to reduce the input of the County Council and Amey over the life of the partnership and increase the involvement of business, the community and

the third sector. It recognises the current value of volunteers and seeks to support and help grow the offer to volunteers.

- 10.10. Amey has proposed to generate annual guaranteed maximum payments to provide budget certainty.
- 10.11. Amey has committed to a breakeven position on Shugborough grounds maintenance costs by year three.
- 10.12. The solution will include the establishment of a design hub in Staffordshire, increasing external work in the Highways Laboratory and construction works. By Year five this is predicted to bring additional economic benefit to Staffordshire of approximately £2.75million per annum. This represents 300% growth to the baseline figures.
- 10.13. They have committed to the introduction of new technology, systems and expertise that will improve asset management planning and reduce asset ownership costs.

11. How will the existing services be transitioned and the new arrangements mobilised?

- 11.1. This new arrangement represents a significant change in the way services are delivered in relation to infrastructure in Staffordshire. It will require significant changes to organisational arrangements.
- 11.2. We are working largely with an existing workforce coming from the current contract and existing County Council employees to fulfil all the roles in the partnership. We therefore need to jointly establish a structure that operates to fulfil the commissioning activities of the County Council whilst allowing the commitments of the bid to be delivered.
- 11.3. We have established those minimum functions that the County Council must ensure it can provide in the next section. This will be translated into job roles as part of the mobilisation process. However we will look to the whole of the County Council to see how these can be fulfilled rather than taking a service specific view.
- 11.4. An initial mobilisation plan and transition phase has been established. This will be in incremental plan focusing on bringing in benefits as soon as possible. It is anticipated that the initial transition and mobilisation will be complete by late summer.
- 11.5. There will be a cost to this mobilisation which is estimated to be £0.67m. This is required for introduction of new IT systems and for systems and process redesign which are fundamental to introducing the new ways of working required for the partnership to deliver it's objectives of service improvement and cost reduction.

12. How will the partnership be governed?

- 12.1. The governance approach has been grouped into five accountable levels:
 - Political commissioning,
 - Strategic commissioning,
 - Operational commissioning,
 - Delivery, and
 - Monitoring.
- 12.2. In addition to the County Council's decision making arrangements there will be three specific governance groups covering strategic, operational and delivery issues.
- 12.3. The County Council will have majority voting rights on the groups.
- 12.4. Monitoring will be undertaken by specific outcome groups which will include key stakeholders such as LEPs, parishes, districts, general public and special interest groups as appropriate.
- 12.5. As this partnership presents a significant change to existing operational arrangements it was necessary to consider the functions, skills and abilities to remain within the County Council establishment.
- 12.6. This goes beyond basic contract management to include the following key requirements
 - Representing the needs and aspirations of Staffordshire,
 - Ensuring the delivery of the level of quality and customer satisfaction required,
 - Influencing the future direction at a local, regional and national level,
 - Setting the strategy to meet the outcomes,
 - Managing our relationship with our partner,
 - Making sure the right things are happening and
 - Ensuring value for money
- 12.7. The exact organisational structure to fulfil this will be established during the mobilisation phase.

13. What is the effect on staff and pensions?

- 13.1. There will be transfer of staff to Amey as part of the partnership. This has been a consideration as part of the procurement process and we have established that existing terms and conditions of employment will be maintained.
- 13.2. Amey has demonstrated significant experience in dealing with staff transfers and have included details of proposed processes for any TUPE transfers.

- 13.3. Staff have been consulted on and involved in the project throughout the procurement phase. Three significant all staff briefings have taken place from project inception to the most recent coinciding with the publication of this report.
- 13.4. Staff have been involved in the establishment of the specifications and also in the evaluation of the final bids.
- 13.5. In line with other recent projects transferring staff will continue with the LGPS. All existing County Council staff not currently members of LGPS will still be entitled to join. It will be closed to new employees of Amey.
- 13.6. The County Council's actuary has produced an assessment of the employer contribution rate required for future service. This differs from that which would be paid if staff had remained employed by the County Council because the County Council as a scheme employer pays a stabilised employer contribution rate modelled by the actuary, which is only available to those employers who in the main have tax raising powers or a strong covenant.
- 13.7. A figure of 24.3% was given to bidders for pricing purposes.
- 13.8. This produces an increase in pensions costs for transferring staff of approximately 4% in the first year. This does not present an actual cost increase over the life of the contract as if this results in an over payment to the fund it would benefit the County Council's position in the fund overall.
- 13.9. Staffordshire County Council is still liable for the deficit repair in respect of these employees which was provisionally identified as being £0.6m per year for all staff involved in the service areas in scope.
- 13.10. The County Council will take the pension risk for both the past and future deficits except in circumstances where the actuary identifies pay increases above their actuarial assumptions.
- 13.11. There are existing employees of Amey on LGPS. This will continue but with a new admission agreement.

14. Consultation

- 14.1. Consultation has taken place with trade unions as part of the fortnightly consultative forums. They were invited to and took part in the staff briefings and also there was a trade union specific session as part of the stakeholder week in the second phase of dialogue.
- 14.2. A Community Impact Assessment has been produced and a précis is appended to this report. The majority of community impact issues are related to the work undertaken in providing and maintain infrastructure and these are generally controlled by design and operational standards.

14.3. A consultation process took place with the critical stakeholders. This was also made public. Principle stakeholders were City, District and Borough Councils, volunteers currently engaged in activities relevant to the scope, National Trust, English Nature, ANOB and the Parish Councils Association.

14.4. A copy of the consultation report is appended.

15. Risk

15.1. A detailed analysis of the risks has been developed and monitored throughout the project by the Project Board. For each of the identified risks, mitigation is in place. The principle risks are

15.2. Do nothing. This is not an option as a replacement delivery mechanism is required for the highways maintenance contract. Also efficiencies are required to reduce costs without reducing service levels.

15.3. Reputation. The services included in scope are some of the most widely visible of the County Council. There are opportunities to improve customer services with investment in technology that would be expensive for the authority to do independently.

15.4. Achievement of outcomes. The services involved are critical to supporting the County Council's outcomes especially in terms of economic growth.

15.5. Pension deficit and future contributions. As with all pension funds there is a deficit situation and there has to be a view taken on contributions to meet future liabilities. Consistently all bidders in the process have stated that they don't believe that they can offer us value in determining the pension contributions. Risks around future performance of pensions funds which they have no control of would be passed back to the County Council in terms of increased prices. The current proposals place risk where it can be managed.

15.6. Skills required to achieve the correct outcomes for Staffordshire. Working in partnership with the private sector needs to be carefully balanced. There are a great many benefits in terms of efficiency and best practice that can be bought to the County Council but it must retain the correct skills in house to ensure that the partnership is delivering the right services at the right price.

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16. List of Background Documents published with this report:

- Infrastructure+ Final Business Case
 - Appendix A: Outcomes Chain

- Appendix B: Services in Scope
- Appendix C: Strategic Options Appraisal
- Appendix D: Outline Business Case
- Appendix E: Customer Insight Report
- Appendix F: Stakeholder Register
- Appendix G: Community Impact Assessment (CIA)
- Appendix H: Consultation Report
- Appendix I: PQQ Procurement Report
- Appendix J: Outline Solution Evaluation Procurement
- Appendix K: Final Bid Evaluation Procurement Report

17. List of additional Background Documents exempt from publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended)

- Appendix: L: Summary of the Key Commercial Features of the Preferred Bidder's Submission