

24 April 2014

Agenda Item:

REPORT OF THE SERVICE DIRECTOR, HIGHWAYS

SAVINGS ACHIEVED THROUGH THE USE OF THE HIGHWAY TERM SERVICES CONTRACT.

Purpose of the Report

1. The purpose of this report is to provide Members with information relating to the savings currently being achieved through the use of the highways term services contract which came into being on the 4th of April 2013.

Information and Advice

2. The information contained in this report is provided for information only.
3. At its meeting on the 30th of June 2011 the County Council considered a report on the future delivery of highway services in Nottinghamshire. That report concluded that a range of highway services should be evaluated to determine which could be offered to the market to allow the authority the opportunity to test the market, benchmark costs, identify new providers and provide healthy competition between suppliers, whilst retaining a strong local supplier base. An option to tender the whole of the works undertaken by the authority's in-house service provider was discounted at that time.
4. Following that meeting the Highways Division undertook an extensive review of all of its services, this review was termed the Traded Services Review (TSR).
5. One key element of the TSR was a series of workshops which were attended by staff from throughout the highways division. These workshops considered service delivery through in-house operations teams, external contractors or a mixed economy for delivery. The results of these workshops were further refined to take account of the impact of the changes on the continued viability of the retained in-house service provider to operate on a commercial trading account and to enable resources to be managed, for example between seasonal activities, and to provide a clear definition between in-house and externally delivered services to assist the establishment of more efficient commissioning processes.
6. On the 9th of February 2012 the Chairs of the Transport & Highways Committee and the Finance & Property Committee considered a report detailing the findings of the TSR, setting out reasons for the inclusion of the specific service areas in the contract (mainly planned works) and the retention of in-house provision for other service areas (mainly reactive work). It was determined that

the TSR recommendation was the most appropriate for the delivery of services and had been subject to a robust assessment / interrogation procedure.

7. The highway term service contract which eventually resulted from the TSR incorporates industry best practice and is designed to provide high quality highway services through rigorous performance management. Contract extensions beyond the initial 5 year period will only be granted for proven high quality service delivery and will be evaluated during the second year of the contract.
8. A key consideration throughout this process has been the use of the highway term service contract to support the local economy. The successful tenderer has committed to delivering 90% of its work through local employment and local suppliers. The commitment to 90% delivery through the local economy is unusually high for a contract of this nature and is an important element of it.
9. A further commitment Highways Division made to the local economy is the requirement for the successful tenderer to establish a minimum of four apprenticeships during the first two years of the contract. As a direct result of the contract the first apprentice is already in post and arrangements are ongoing to undertake further recruitment.
10. The contract documents produced by Nottinghamshire County Council have since been adopted regionally and nationally to form the templates for the Midlands Highway Alliance and Highway Efficiency Maintenance Programme model term service contracts
11. The successful tenderer - Lafarge Tarmac - achieved the highest scores for both its quality and price submissions for the contract and its appointment was approved unanimously by Policy Committee on the 16th January 2013.

Financial Implications

12. The 16th of January 2013 report to Policy Committee anticipated that indicative savings of £2,152,712 per annum would be achieved through the use of the highways term services contract, this amount was expected to comprise projected capital savings of £1,735,411 and projected revenue savings of £417,301.
13. As well as recommending the award of the highways term services contract that report also made the further recommendation that the capital element of any savings achieved should be reinvested to improve the condition of the County's highway network.
14. The indicative saving of £2,152,712 was arrived at following a comparison of the successful tenderer's (Lafarge Tarmac) financial submission for the highways term service contract with that of a benchmarking exercise which was undertaken by the County Council's in-house service provider.
15. The financial submissions comprised a number of model schemes which the tenderers were required to cost. These models were chosen to fully represent the scope of the works included in the contract and were based on real historical schemes. The cost information for each model was been weighted to ensure that it reflected the true proportion of the different works.

16. The scope and estimated value of the works which it was intended to procure through the use of the highways term service contract is illustrated below in Table 1. The scope of the works included in the table below is limited to the provision of the physical works, all design works associated with these work streams have been retained by the County Council.

Work stream	Estimated annual value (based on 2012/13 values)
Carriageway resurfacing & high friction surfacing	£6,000,000
Carriage surface dressing	£1,500,000
Road markings and studs	£500,000
Gully cleansing	£1.250,000
Planned street lighting column replacement	£1,500,000
Baseline Annual Value	£10,700,000

Table 1 – Work streams included in the highway term service contract

17. For the purposes of this report the savings currently being achieved through the use of the highways term service contract will be reported by work streams as identified in Table 1.

Surfacing Scheme Name	Cost Using Term Service Contract	Benchmarked Cost	Saving
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Carriageway resurfacing & high friction surfacing

18. To estimate the probable savings achieved through the use of the highway term service contract, a number of schemes completed this year have been selected which are representative of the programme as a whole. A 'shadow' estimating exercise has been carried out for these schemes using the in-house service provider's estimating system. The schemes selected for this exercise are shown in Table 2 below.

Greaves Lane	£128,521.4	£190,822.4	£62,301.00
C17 Fiskerton	£127,226.68	£147,715.88	£20,489.20
Coddington	£121,435.22	£134,922.87	£13,487.65
C50 Mickeldale	£85,143.9	£91,383.53	£6239.63
<i>Total</i>			£102,517.48

Table 2 – Estimated resurfacing savings for typical schemes

19. The cumulative savings made through the use of the highway term service contract for the four schemes shown in Table 2 have been estimated to be £102,520, extrapolating these savings across the whole carriageway resurfacing and high friction surfacing programme the anticipated savings for the current financial year are estimated to be £1,090,000.

Carriageway surface dressing

20. For benchmarking purposes the actual treatment costs for surface dressing operations undertaken in 2011 have been applied to the areas and treatments undertaken during 2013. The 2011 date has been chosen to provide the benchmarking costs because it was the final year that this work stream was delivered by the County Council's 'in-house' service provider. The surface dressing benchmark costs are shown in Table 3.

Surface Dressing Treatment	2013 Areas (m ²)	2011 Rates (£)	Benchmark Costs (£)	2013 Rates (£)	Highway term service contract Costs (£)
Racked in rural	24,713	3.51	86,742.63	2.40	59,311
Racked in urban	313,310	2.95	924,264.50	2.40	751,944.00
6mm	36,645	2.51	91,978.95	1.77	64,861.65
		Total	1,102,986.08	Total	876,116.85

Table 3 – Surface dressing benchmark costs

21. It should be noted that the 2011 rates have been adjusted to allow for inflation and that these rates do not allow traffic management, replacement lines and reinstatement of road studs (cats' eyes).
22. The reported savings achieved for this work stream through the use of the highway term service contract are therefore £226,900.

Road markings & studs

23. In 2013/14 the budget for replacement road markings and studs was £484,600. Based on the reduced costs achievable through the use of the highway term service contract this was reduced to £264,600 in 2013/14, representing a saving of £220,000.
24. It should be noted that the highways term service contract has been used to replace the road markings at numerous problematic sites such as the A614 between Rufford and Ollerton, the pedestrian crossing on A620 Hospital Road, the A6002/A609 Balloon Woods junction, eleven east coast railway level crossings, numerous School Keep Clear markings throughout the County, A614 Wellow, A617 Newark to Kelham, A614 Lockwell Hill to White Post Farm, A608 Mansfield Road and the junction box markings outside of the police station on Ratcliffe Road, Mansfield. Many of these locations required complex and expensive traffic management arrangements.

Programmed gully cleansing

25. Programmed gully cleansing works will initially comprise two eighteen month cycles during which every highway gully maintained by the County Council will be cleansed twice, the contractor will then use the information captured during these operations to arrive at a new optimised gully cleansing regime which provides best value.

26. Details of the number of the number of gullies cleaned during the 2013/14 financial year are provided in Appendix A.
27. Gully Cleansing is just one of a range of drainage related highway maintenance works which are undertaken by the Highway Division from its revenue budgets, these works also include minor drainage repairs, jetting carrier drains, cleansing manholes, cleansing off lets etc.
28. Prior to the highway term service contract the entire range of these works was undertaken by the County Council's in-house service provider.
29. Since the 4th of April 2013 gully cleansing has been undertaken by Lafarge Tarmac whilst the remaining activities have generally been retained in-house. Roads requiring expensive traffic management arrangements are the exception to this rule. On these roads Tarmac Lafarge are cleansing the entire highway drainage systems they encounter to avoid costly revisits at a later date.
30. In 2013/14 significant drainage costs were incurred responding to flooding events – most notably in Southwell and Hucknall - which took place on the 23rd July and the subsequent clean up works which continued until the 19th August. The works undertaken by Lafarge Tarmac and the in-house teams following this flooding demonstrates that the flexibility of the service has not been impaired by the introduction of the term service contract.
31. The use of the term service contract for gully cleansing works has also allowed the County Council's in-house service provider to realise savings. These savings have been achieved by sharing information obtained during gully cleansing which includes location, condition and capacity. This information has allowed the in-house service provider to undertake programmed remedial works and reconfigure its operatives and vehicles to maximise efficiencies.
32. The anticipated savings achieved in 2013/14 through the use of the highway term service contract and changes to the in-house service provider's working practices are estimated to be in the region of £333,400.

Planned street lighting column replacement

33. The specification for planned street light column replacement works was reviewed following the introduction of the highway term service contract and a decision was made to use LED lanterns with a serviceable life of twenty years and lighting columns with a serviceable life of fifty years.
34. This significant change in maintenance practice is expected to result in substantial benefits to the County Council by reducing its electricity consumption and the frequency it replaces street lighting columns. It is not possible for any form of comparison to be made to comparable works which were undertaken prior to the highway term service contract.
35. In the absence of benchmark costs for this work stream it is reasonable to expect that the term service contract will generate efficiencies of a similar scale already illustrated for the other work streams.
36. The highway term service contact has also allowed the County Council the opportunity to take advantage of Tarmac Lafarge's existing procurement arrangements with its suppliers in order to purchase LED lanterns for street

lighting activities which have been retained by the Authorities in-house service provider.

37. The use of LED lanterns in these circumstances is a new initiative which normally would have required the establishment of purchasing arrangements with suppliers. Procuring these items via Lafarge Tarmac has allowed these set-up costs to be avoided. The County Council's Procurement Centre has estimated that these set-up costs would have been £4,500.
38. It is also probable economies of scale would have been realised through the use of Lafarge Tarmac's relationships with its suppliers. However, further work is required to establish what financial benefit this has achieved for the County Council and no such savings have been included in this report.

Additional savings and income.

39. The introduction of the highway term service contract has generated an income to the County Council of £208,210 which was realised through the sale of the Authority's gully cleansing and lining vehicles which were no longer required. This amount was arrived at following two independent valuations of the vehicles concerned. The purchase of these vehicles was a contractual requirement for the successful tenderer. The County Council received this income on the 8th July 2013.
40. Additional efficiency savings to the amounts listed above have also been generated through the application of innovative processes and working practices. Appendix B contains a log of these efficiency savings. This schedule was prepared by Lafarge Tarmac and the efficiencies it contains have been ratified by the appropriate County Council officer involved in the delivery of the works concerned. The efficiency log contains declared savings of £171,123.92 which have been reinvested in the maintenance of the Highway network.

Reason/s for Recommendation/s

41. The information contained in this report is provided for information only.

Statutory and Policy Implications

42. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That the contents of this report, the forecasted savings of £2,046,000 and income of £208,210 for the 2013/14 financial year are noted.

For any enquiries about this report please contact:

Martin Carnaffin - Contract Manager, Highways Division

Constitutional Comments

Report for Information

Financial Comments

Report for Information

Background Papers and Published Documents

Details of the carriageway resurfacing & high friction surfacing programme 2013/14 – 22nd January 2014

Details of the carriageway surface dressing works programme 2013 – 23rd January 2014

Details of the replacement road markings undertaken during 2013 – 21st January 2014

Details of the 2013/14 planned street lighting column replacement programme -22nd January 2014

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

County Council Report, 30th June 2011

Cabinet Lead Member Report, 29th November 2011

Highways Traded Services Review Final Report

Highways Traded Services Review - Joint Report to Cabinet Members for Transport and Highways & Finance and Property, 9th February 2012

Award of Highway Maintenance Contract – Report of the Chairman of the Transport and Highways Committee, 16th January 2013.

Electoral Division(s) and Member(s) Affected

All