

**Open Report on behalf of Richard Wills,  
Executive Director for Environment and Economy**

Report to:	<b>Highways and Transport Scrutiny Committee</b>
Date:	<b>16 June 2017</b>
Subject:	<b>Lincolnshire Highways Alliance (LHA) Replacement - (Highways 2020)</b>

**Summary:**

The three contracts that form part of the Lincolnshire Highways Alliance (LHA) will reach their full term by 31st March 2020. This report describes the actions that will be required to ensure that appropriate arrangements are in place to provide service delivery continuity.

**Actions Required:**

Members of the Highways and Transport Scrutiny Committee are invited to consider and comment on the report and:

- 1) Support the suggested next steps and Project Plan included as part of the report, and;
- 2) Highlight any additional priorities for officers to consider as part of the contract development process.

## **1. Background**

The three contracts that form the Lincolnshire Highways Alliance (LHA) began on 1st April 2010 and are due to reach full term on 31st March 2020 following the award of the final extension.

The three individual contracts are,

- Highway Works Term Contract
- Traffic Signals Term Contract
- Professional Services Contract

The Highway Works Term Contract delivers the majority of highway works up to an individual project value of £200k including, surfacing, patching, surface dressing, drainage, street lighting, bridges/structures, signs, lines, grass cutting, weed control, drainage cleansing, emergency response and winter maintenance. Spend through this contract is historically between £30 – 35 million per annum.

The Traffic Signals Term Contract delivers all the maintenance and improvement work to our existing signals and controlled crossings together with the provision of new signal installations. Spend through this contract is usually around £1million.

The Professional Services Contract provides access to professional consultancy services including, highway and drainage design, transport modelling, planning advice, ecology and archaeology expertise. Spend through this contract varies depending on factors such as the design of major schemes but is usually between £2 – 4million.

Work began on the Lincolnshire Highways Alliance in 2007 with a preliminary report to the Highways Policy Development Group, the precursor to the Scrutiny Committee. That resulted in the contract arrangements at that time being extended to align with a 1st April 2010 replacement target.

A Steering Group and Working Group were established to progress the project. Exploratory visits were carried out to a number of Authorities considered to be delivering innovation and/or high performance in one or a number of related areas which included Kent, North Yorkshire and Worcestershire.

External facilitation from the Collaborative Working Centre (CWC) was procured to support the options appraisal process. This took into account the work that had been done to develop an Outline Business Case for a Highways Private Finance Initiative (PFI) bid, the Authority's appetite for risk and our core ability to manage any proposed delivery vehicle.

The eventual decision to progress with the LHA reflected all the exploratory work, Member preference for the retention of some control over decision making and our best effort to provide flexibility for the future.

The chosen solution was highly innovative at the time and captured a number of areas of best practice from the projects knowledge capture exercise. We were one of the first Authorities to adopt the New Engineering Contract (NEC) 3 Term Service Contract and our template informed the subsequent Midlands Highways Alliance (MHA) and Highways Maintenance Efficiency Programme (HMEP) model documents. Our use of the X12 Contract Clause to link contracts remains class leading and the linked performance management system is still being used nationally as an example of best practice.

A Senior Project Leader has already been appointed to progress this work and initial option appraisal work has commenced. A draft timetable for the work can be found as Appendix A.

## **Discussion**

The LHA model has stood the test of time as one of the few long term contractual arrangements to reach full term. Even after so many years it remains one of the template delivery models for highways services.

Sentiment towards large contracts is changing after so many publicised issues and service failures, suggesting that we should consider smaller packages of work with the perception of greater control and flexibility. This would replicate a model that we used in the 1990's which was not entirely successful with smaller suppliers providing varying degrees of service delivery quality. This type of delivery would also require a greater contract management resource for drafting, letting and managing the increased number of contracts. A move to this model would potentially compromise our ability to achieve the Band 3 Status for the Department for Transport Assessment Process as it may be difficult to evidence contract and delivery efficiency against the existing criteria. Failure to achieve Band 3 status would result in a reduction of our Capital Maintenance Grant of up to £5million.

One of the perceived benefits of one larger contract is the ability to provide the circa 90 drivers required to provide the winter maintenance service. Any change in the model will need to reflect this primary service need.

The mixed economy model for professional services allows us to "top up" our in house design capacity to deliver peaks of work or to provide specialist knowledge not retained by Lincolnshire's own staff. Both iterations of this model have broadly delivered on this aim and allowed us to retain an in house intelligence capability which helps to optimise our approach to design risk costs.

The traffic signals contract continues to deliver exceptional levels of innovation with resulting efficiency improvements. The ability to retain a sustainable nucleus of client ability remains a long term concern which will need to be a focus for the option appraisal work.

All of the current contracts are based on the NEC3 Suite of Contracts which are about to be replaced by the enhanced version of NEC4. We are likely to continue the use of some form of NEC contract so will need to ensure key individuals are updated on the new provisions.

## **Option Appraisal**

The eventual choice of option will depend on a variety of factors including:-

- The overall objectives for the service, short, medium and long term
- Client capability and capacity
- The appetite for, and capacity to manage risk
- The wider perception of the delivery vehicle value

Likely options with general characteristics include the following, (some options can be used in combination to deliver different aspects of the highway service)

- Private funding (PFI 2 if it materialises)
- Single Provider – most services transferred to a private sector partner with small retained client
- Multiple providers – authority procures individual services from different providers such as gulley emptying, grass cutting etc.

- Framework – more than one provider with similar skill set to allow mini competitions to be held for work packages
- Joint venture – separate legal entity required with small client function for contract management
- In-house with top up – not a likely option for works delivery for Lincolnshire given its long history of contracting out but this is the current Technical Services Partnership (TSP) model
- Teckal – wholly owned Council Company with some trading advantages
- In-house – not a likely option for Lincolnshire given its history of contracting out
- Further use of regional frameworks such as the Professional Services Contract available through the MHA

Moving through the spectrum of options from a framework through to private funding tends to increase the provider risk. Moving from a joint venture through to in house provision tends to increase the employers risk.

There is a range of national performance data indicating high performing highway authorities:-

1. The Department for Transport Self-Assessment Process suggests Durham and Lincolnshire are the top two highway authorities
2. The CQC Performance Benchmarking process identifies high performers in a range of highway and transport related services
3. A further iteration of the Cost and Value for Money Benchmarking produced independently

Analysis of this range of data is currently underway to see if any conclusions can be drawn which may help to inform our option appraisal work.

### **Suggested Next Steps**

1. **Set up an initial Working Group to begin evidence gathering and analysis (some work is already ongoing)**
2. **Complete a series of fact finding visits to other highway authorities that may help to inform our work**
3. **Set up a Steering Group including member involvement**
4. **Produce regular update papers to Scrutiny Committee to ensure appropriate member engagement**
5. **Plan an Option Appraisal Workshop in July, utilising the outputs from the fact finding visits to ensure that work can continue over the summer recess period. Consider using the HMEP Procurement Options Toolkit and the use of independent external facilitation**

## 2. Conclusion

This report provides the background for our current contract arrangements and sets out the initial work required to put in place replacement contractual arrangements for 2020 and beyond.

The intention will be to ensure engagement takes place with Members throughout the process to inform the option appraisal process and ensure that the contract award to be made reflects political and community expectations on how our highway network is managed and maintained.

Members are encouraged to question the information being presented in this report and highlight any additional priorities for officers to consider as part of the contract development and award process, which will become a key focus of the Scrutiny work programme.

## 3. Consultation

### a) Have Risks and Impact Analysis been carried out?

N/A

### b) Risks and Impact Analysis

A full risk and impact analysis will be carried out at the beginning of the project and throughout its duration.

## 4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Highways Alliance Renewal Project Plan

## 5. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Paul Rusted, Infrastructure Commissioner, who can be contacted on 01522 553071 or [paul.rusted@lincolnshire.gov.uk](mailto:paul.rusted@lincolnshire.gov.uk).

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