

## **BUSINESS CASE**

**Project: Highways and Transportation-  
Outline Business Case CU2260**

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## Table of Contents

	Page
Table of Contents.....	2
1 Executive Summary .....	3
2 Introduction and Background .....	5
3 Where are we now? .....	7
4 Where do we want to be? - Aims and Objectives.....	9
5 How do we get there? Part 1 - Option Development and consultation with Industry .....	10
6 How do we get there? Part 2 - Detailed Options .....	12
7 How do we get there? Part 3 - Option Analysis (pro's and con's) .....	21
8 How do we get there? Part 4 - Procurement.....	30
9 How do we stay there?.....	33
Appendices .....	34
Appendix A Delegated Decision 21 <sup>st</sup> December 2011 .....	34
Appendix B Review of Recent National Trends .....	36
Appendix C Industry Consultation.....	38
Appendix D Summary of Industry responses. ....	40
Appendix D1 Industry response to financial savings. ....	47
Appendix E OBC Initial Ideas and further option consideration .....	48
Appendix F Detailed analysis of the Final Four Options.....	51
Appendix G Background Information for Preferred option .....	57
Appendix H Costing of Final Options .....	61
Appendix I Not used .....	70
Appendix J Suggested procurement timetable. ....	71
Appendix K Suggested Scope for procurement. ....	72
Appendix L Risk.....	73
Appendix M Glossary of Terms and Abbreviations.....	75

This Outline Business Case uses a number of technical terms and abbreviations. [Appendix M](#) (at the end of the document) gives a Glossary of Terms and Abbreviations to assist in the reading of the document.

## 1 Executive Summary

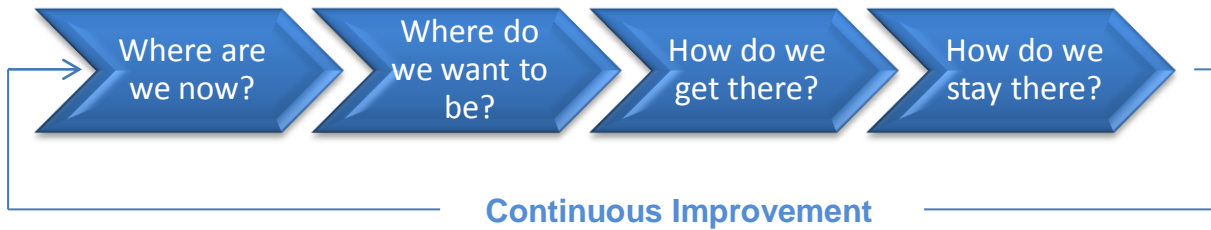
- 1.1. The main aim and objective of this Outline Business Case (OBC) is to determine whether the current Highways and Transportation service can be improved in quality of the service provided without increasing the cost.
- 1.2. It provides a clear evidenced based rationale to allow Members to make an informed decision on modernising the Highways contracting arrangements.
- 1.3. After considering various options and the use of an Industry Questionnaire and Open Day this OBC recommends that the main elements of all Highway revenue and capital works, which includes Street lighting, Bridges and Highways Maintenance are procured under a single contract with one provider in partnership with the Council bringing together the current arrangements where works are currently provided by an in house delivery team and a variety of external contractors
- 1.4. This will move the Council from the current complex structure with two departments having around 50 contractual arrangements and some internal trading to a clear single internal Client structure and a single external Contractor with annual budgets circa £3.4m revenue and £5.6m LTP capital.
- 1.5. The Council's Medium Term Planning Process assessed that savings in the region of £2m should be achievable in the Highways and Transportation Service Group. This OBC suggests net savings of £179k would be possible, from reframing the contractual arrangements, with other options for the TMA permit scheme, parking retendering, investment in infrastructure and capitalisation of maintenance anticipated to deliver a further £1.9m.
- 1.6. The Authority is a member of the Midlands Highways Alliance (MHA) which was formed in 2007 and comprises 18 local highway authorities (including Milton Keynes) with £12m worth of tracked savings to date. The MHA is seen to be a national exemplar, and it is felt that the current system of external support for the Client functions using the MHA Frameworks is retained rather than including these in the new Contract.
- 1.7. However, it is also recognised that the MHA has created a template for this type of single contract and therefore it is recommended that this is used for the basis of the contract.
- 1.8. There will be a one off cost for the procurement estimated at about £0.3M split between the current and next financial years.
- 1.9. However the expected revenue benefits of the Contractual changes alone are of the order of £0.3M in 2013/14 rising to £0.7M in 2014/15. (This is reduced to £179k when taken into account the net impact of restructuring and loss of current revenue budgeted surpluses on capital works)
- 1.10. By 2015/16 by smarter use of capital funding to reduce cost of revenue maintenance investment in infrastructure and income changes, savings estimated to be around £2.1M.

- 1.11. There would also be added value of over 10% on both the planned Capital programme and proposed infrastructure investment.
- 1.12. This shows that the proposed option should lead to:
- Modest revenue savings on the contracting arrangements
  - Higher quality outcomes and greater responsiveness from having a single provider.
  - More streamlined and 'professional' contract client side capacity within Milton Keynes Council, again supporting better service to the public. Significantly better value from capital programme spend, including the major forthcoming capital investment

In addition other actions are being developed that are anticipated to lead to further savings:

- Additional income from TMA and car parking retendering
  - Scope to reduce revenue (i.e. maintenance) costs through effective capital interventions
- 1.13. The single contract, if accepted, can be procured using the Restricted Tender procedure. This should enable a start date of 1<sup>st</sup> October 2013 which has been used in the cost analysis of each option. This would be the latest start date in 2013 as with a Highways Contract the Winter Gritting function needs to be handed over prior to the start of the Winter season.
- 1.14. The procurement will need to be developed in such a way so service delivery maintains support to the local economy. This contract offers opportunity for the development of some of the Localism Act - specifically the Public Services (Social Value) Act 2012 principles within the Contract. However, this has not overturned EU Procurement law and the Council will have to continue to comply with OJEU Tendering Rules.
- 1.15. In order to achieve the timescales it is suggested that work on the documentation is started prior to the Cabinet meeting.
- 1.16. It is also thought useful to arrange a further series of Industry engagements once Cabinet have made their decision to check with the Industry details on the actual information they would require, the timescales they would need and their view of certain specific issues.
- 1.17. This would then be followed with an OJEU notice being published in August 2012 with a Pre-qualification Questionnaire (PQQ) to select the short-list in October 2012, followed by a full tendering process.

## 2 Introduction and Background



- 2.1. The above diagram shows the process that has been used in the production of this Outline Business Case (OBC) and the report is set out in the same format:

Section 3	Where are we now?
Section 4	Where do we want to be? - Aims and Objectives
Section 5	How do we get there? Part 1 - Option Development and consultation with Industry
Section 6	How do we get there? Part 2 - Detailed Options
Section 7	How do we get there? Part 3 - Option Analysis (pro's and con's)
Section 8	How do we get there? Part 4 - Procurement
Section 9	How do we stay there?

There are also a number of Appendices to provide further detailed information not contained in the main report.

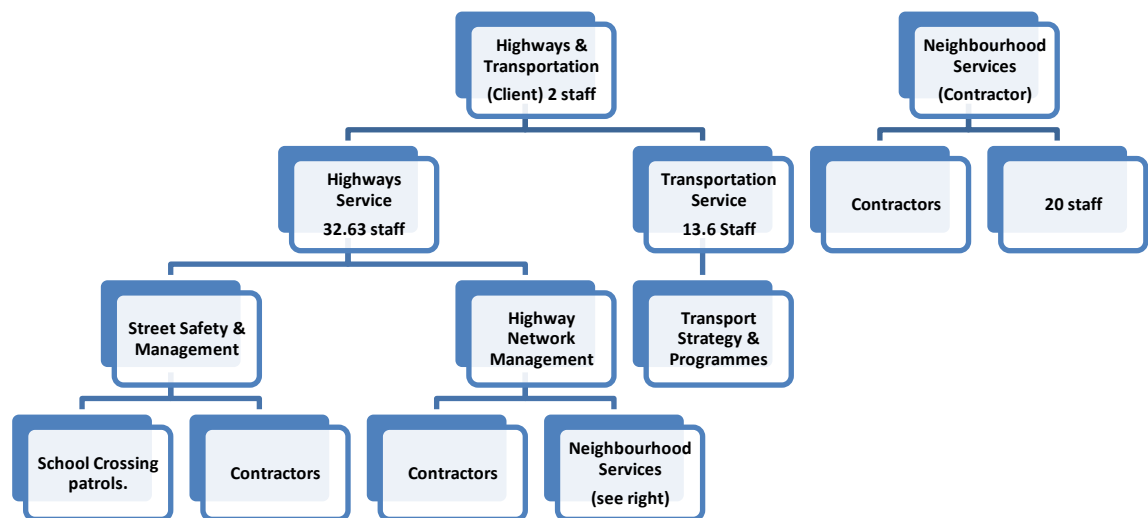
- 2.2. As part of strand 4 of the Organisational Transformation Programme (OTP) the Highways and Transportation service has been reviewed. This initial desk top review, carried out in late 2011, identified that a partial outsourcing to a Strategic Partner would be beneficial to the authority in both financial and service delivery terms. The proposal was agreed by senior officers and a Delegated Decision was made on 21<sup>st</sup> December 2011 (See [Appendix A](#) for details) giving approval to publish a Prior Invitation Notice (PIN) and hold an Industry Open Day in order to test the appetite of potential providers and assist in producing this Outline Business Case (OBC).
- 2.3. The models considered in the initial desk top review were based on those commonly used amongst other local authorities, drawing on good practice; each considered using criteria tailored to Milton Keynes Council's objectives and deliverability criteria. In addition, learning from other authorities' successes and mistakes, the specification, market testing, and management of the contract is almost as important as the business model itself.
- 2.4. The initial desk top review identified that within the current model of recent internal restructuring and programmes for increased efficiency savings, there still remains considerable areas for improvement.
- 2.5. These were in line with issues over the timely delivery of capital and revenue programmes and project management to the MK Approach identified through various audit reviews. There is scope to improve the value for money of

delivery within highway maintenance and reduce duplication between highway officers and highway contractors.

- 2.6. Interview feedback and customer satisfaction levels suggest that an increased focus on education, training and promotion within smarter choices, cycling and road safety will help to build on good technical performance in this area.
- 2.7. The summary of that initial desk-top review concluded: "There is an extremely high risk, that under this current model (business as usual) the required improvements cannot be delivered or can only be partially delivered. It can also be surmised that the objectives of the OTP cannot be met without addressing the key challenges above."
- 2.8. Since the initial desk-top review was undertaken progress has been made in several key areas.
  - 2.8.1. A new integrated passenger transport unit has been created. This unit is designed to create a single focus area to manage and support the delivery of passenger transport services.
  - 2.8.2. This has resolved many of the issues relating to Passenger Transport and gives a clear strategy for the future. The areas needing review are therefore seen to be the areas relating to the Highways Service and the effect of the departmental split between that and the Neighbourhood services delivery arm.
  - 2.8.3. The Council has also adopted a new long term Transport Strategy which has received widespread support from the community and sets a clear framework for moving forward.

### 3 Where are we now?

- 3.1. The current situation (shown diagrammatically below) despite changes in structures especially with Transportation Services, has on the Highways Service changed little since the Unitary Authority was formed in 1997. The split of work between Highways and Transportation Services as the “Client” and Neighbourhood Services as the “Contractor” with a number of Contractors working as if they were sub-contractors to them, reflects the Compulsory Competitive Tendering of the 1980s. This artificial split has led to significant complication of what should be a very simple internal structure, and has undoubtedly added costs into the service, through internal trading arrangements



- 3.2. Restructuring over the past 3 years has transformed the Highways and Transportation Services Group “Client” function from four service areas to the current two service area model to provide a clearer team and line management structure, as well as giving significant savings. However this did not resolve the artificial split between “Client” and “Contractor” roles.
- 3.3. The current Highways and Transportation Services Group contains 68 FTE staff spread across two service areas – 2 management, 13.6 staff in the Transportation service area and 32.63 staff in the Highways service area (including Client officers; Design Engineers; Project delivery teams and School crossing patrol staff).
- 3.4. The Neighbourhood Services also has 20 staff partly carrying out direct works and partly managing the wide range of contractors. This leads to confusion and duplication of work between the two Service Groups.
- 3.5. The OBC has looked at the staffing implications of each option in detail and for most of the options there would be implications both in terms of departmental structures and of staff numbers.

- 3.6. Due to Neighbourhood Services acting as the main contractor they have approximately 50 current contractual arrangements rather than a standard Highways and Street Lighting Term Contract arrangement with one Supplier covering all the works.
- 3.7. The initial desk-top review recognised that through restructuring, the number of staff has been reduced considerably. These reductions have already reduced the revenue budget by £977k over 3 years and has also provided improved programme and project management. This includes £355k which was due to the closure of the Thames Valley Safer Roads Partnership. The remaining staff are committed, experienced, and hold excellent levels of local knowledge. There are, however, gaps in in-house capacity and skills, leading to a reliance on contractors on both an ad hoc basis and through use of frameworks across almost every function. Based on staff interviews, capacity and skill gaps exist in detailed engineering design, highway maintenance (including bridges and street lighting), passenger transport, policy, smarter choices (options for sustainable modes of transport), programme management, parking, and community engagement.
- 3.8. From a procurement point of view the fact that there are nearly 50 different contract arrangements for work that is within the Highways and Transportation service is not best practice. As well as that there is the in-house provision delivered by Neighbourhood Services and the arrangements with Mouchel for various services including support arrangements. The contracts vary in length, some do not end till 2014 and one does not terminate till 2016. This will affect the options for procurement as there will be either a need to novate contracts, which was generally found to be unpopular with the Industry, or require a phased approach to inclusion in the new arrangement. It may also complicate the TUPE issues. (A number of these contracts have currently been let under short term arrangements pending the decision on the wider OBC)



#### 4 Where do we want to be? - Aims and Objectives

- 4.1. The main aim and objective of this Outline Business Case (OBC) is to determine whether the current Highways and Transportation service can be improved in quality of the service provided without increasing the cost. Another aim is to determine whether driving efficiencies further can actually provide this improved service whilst delivering significant cost savings. This would drive 21<sup>st</sup> Century practices into this service area.
- 4.2. However, these are aims and objectives of the OBC. In order to see where we want to be we need to look at the bigger picture of the overall aims and objectives for all areas within Highways and Transportation including the work undertaken by Neighbourhood Services for Highways and Transportation, as well as work currently undertaken by Mouchel under their current Contract with the Council.
- 4.3. The key aims and objectives are seen to be to:

##### Reduce Cost

Improve public perceptions of the service and in particular the condition of roads, footways and lighting in the borough.

Provide a faster response to highways defects

Improve quality of fault reporting data

Reduce the likelihood of insurance claims resulting from accidents and injuries on the highway

Increase management of congestion and the demands on the highway network as Milton Keynes grows and regenerates including greater emphasis on sustainable growth and reducing carbon emissions.

Improve community engagement and media management.

## 5 How do we get there?

### Part 1 - Option Development and consultation with Industry

- 5.1. As a result of the desk top review a Delegated Decision was made on 21<sup>st</sup> December 2011 (See [Appendix A](#) for details) showing that the review had concluded that there were both service delivery and financial benefits to a partial outsourcing of highways and transportation functions to a Strategic Partner whilst retaining strategy and policy in-house. The financial benefits were assessed at the time to be in the region of £2m per annum.
- 5.2. The Delegated Decision also noted that the next step for this work was to develop an Outline Business Case (OBC) that validates the review conclusions and then, if validated, seek Cabinet approval to proceed with the identification and appointment of a Strategic Partner through tendering. In order to develop the OBC a Prior Information Notice (PIN) needed to be advertised in the Official Journal of the European Union (OJEU). The PIN would generate interest from Industry and open discussions facilitating an Industry Day which would quantify market appetite to take on the role of Strategic Partner. The advertising of PIN did not commit the Authority to proceed with the appointment of a Strategic Partner.
- 5.3. Following the Delegated Decision a Project Board was established with governance arrangements in line with the MK Approach. Further governance surety of the project was provided by regular reports to and challenge from the Organisational Transformation Programme board.
- 5.4. In order to expedite the process a consultant was appointed to assist the Council to deliver the Industry Day and Outline Business Case.
- 5.5. In line with the Delegated Decision the consultant reviewed the options in the desk top review so that they could be re-tested as part of the Outline Business Case development. A full review of the financial benefits of the models contained within the feasibility study, in conjunction with the Council's finance department, indicated that the OBC on its own would give rise to savings of the order of £2.0M per annum and even the savings that were achieved were mainly in terms of Capital rather than Revenue budgets. However, that in itself should not deter the process if the results would help in improved service provision.
- 5.6. Of consideration was that evidence from other Authorities who have fully outsourced their Highways are now reviewing this arrangement leading to many now bringing back in-house all or some of the service, see [Appendix B](#) for some key facts from recent Council decisions. .
- 5.7. To progress the Industry Day a wide scope was developed for the PIN in order to test wider options. A questionnaire was sent to each company that responded to the PIN. Then each company was invited to send delegates to the Industry Day (A detailed summary of the Industry Consultation Process is contained in [Appendix C](#))
- 5.8. One of the chief aims of holding an Industry Day is to establish the interest from the market and the effect packaging of the Contract could have on the potential interest. The large level of interest from such a wide section of the

market has helped confirm that there should be adequate interest from the market for any of the options considered.

- 5.9. Following feedback at the Industry Day it was decided that there was no benefit in further consideration of certain options, for example Industry providing upfront investment, as currently the Council can borrow money at a cheaper rate.
- 5.10. At the Industry Day a series of questions, originally posed in the Questionnaire, were asked again anonymously by interactive keypads. The major questions and the responses both from the Questionnaire and the Industry Day have been summarised in [Appendix D](#).
- 5.11. Eight separate ideas (including the original desk top review models) were under consideration and these were put to the Industry in both the Questionnaire and on the Industry Day:
1. Full outsource of Highways and Transport Service
  2. Partial Outsource of total Highways Service
  3. Partial Outsource of total Transport Service
  4. Top-up Consultancy Service for Highways and/or Transport
  5. Term Contract for Highways and Street Lighting Work
  6. Design and Build contract for large projects
  7. Selection of above as Lots
  8. Other
- 5.12. The Industry had a wide selection of views on the right solution for Milton Keynes Council and [Appendix D](#) gives several quotes from the Questionnaires and a table of preferences from the Industry.
- 5.13. The key finding was that the Industry has a clear appetite for working with Milton Keynes but they have a wide variety of views as to how the service could be best delivered. Therefore the Council decision should be based on what best meets its own requirements.
- 5.14. Other issues like benefits and risks associated with the outsourcing are also covered in the Appendix.

## 6 How do we get there? Part 2 - Detailed Options

- 6.1. Following the initial desk top review models and the ideas considered in the Questionnaire and the Industry Day a number of options have been considered. The 'Do Nothing' model considered in the desk top review has been discounted and the 'Business as Usual' model has been used as a base for comparison purposes (Option A). However, it is realised that the current plethora of contracts does not make sense, and many of the other options could be considered alongside keeping an in-house provision of any part of the service where it would provide best value.
- 6.2. As will be seen in section 7 below the Industry is confident savings can be made either by the use of a Term Contract or by a wider Strategic Partnership. The savings are likely to average around 10% over the whole life of the contract.
- 6.3. The parking service was removed from the OBC as this is currently subject to a separate retendering exercise. Further work has been carried out on developing the TMA, and the potential for capitalisation which will be explored in more detail in the options
- 6.4. The inclusion of Transport as part of the wider scope in order to test the previous assumptions through the industry consultation, showed that the market did not give any added benefit to this. Therefore as in the original desk-top review this was removed from the scope.
- 6.5. As part of the analysis eight different options were developed from the eight ideas considered as part of the Industry consultation and these are shown in [Appendix E](#).
- 6.6. Further analysis led to an adaption of these resulting in four main options agreed by the project board, see [Appendix F](#), with the scope reduced to Highways, Bridges and Street Lighting.
- 6.7. The four options are a progression from the current "business as usual" situation as Option A through to a full outsourcing of the work within scope in Option D. Therefore they can be seen as steps on a journey if the full outsourcing is seen as a desired destination. However, many Councils who have taken the full journey are now bringing their contracts back down the steps due to lessons learned.

**Option A** Business as usual (with on-going improvements as planned) including use of Midland Highway Alliance (MHA) framework contracts for large schemes and as Consultancy top-up and using Mouchel for certain skills shortages and support.

**Option B** A single Partnership Contract for a set period (known as a Term Contract in the industry) to any value (but not exclusive over £1.0M) plus use of MHA for large schemes and the MHA for Consultancy top-up and Mouchel for certain skills shortages and support.

**Option C** Partnership with Term Contract to any value (but not exclusive over £1.0M) but including Consultancy top-up. Still use Mouchel for

certain skills shortages and support until end of existing contractual arrangement.

**Option D** Strategic Partnership with Term Contract to any value (but not exclusive over £1.0M) and full outsourcing of Consultancy. Still use Mouchel where contractually required until end of existing contractual arrangement.

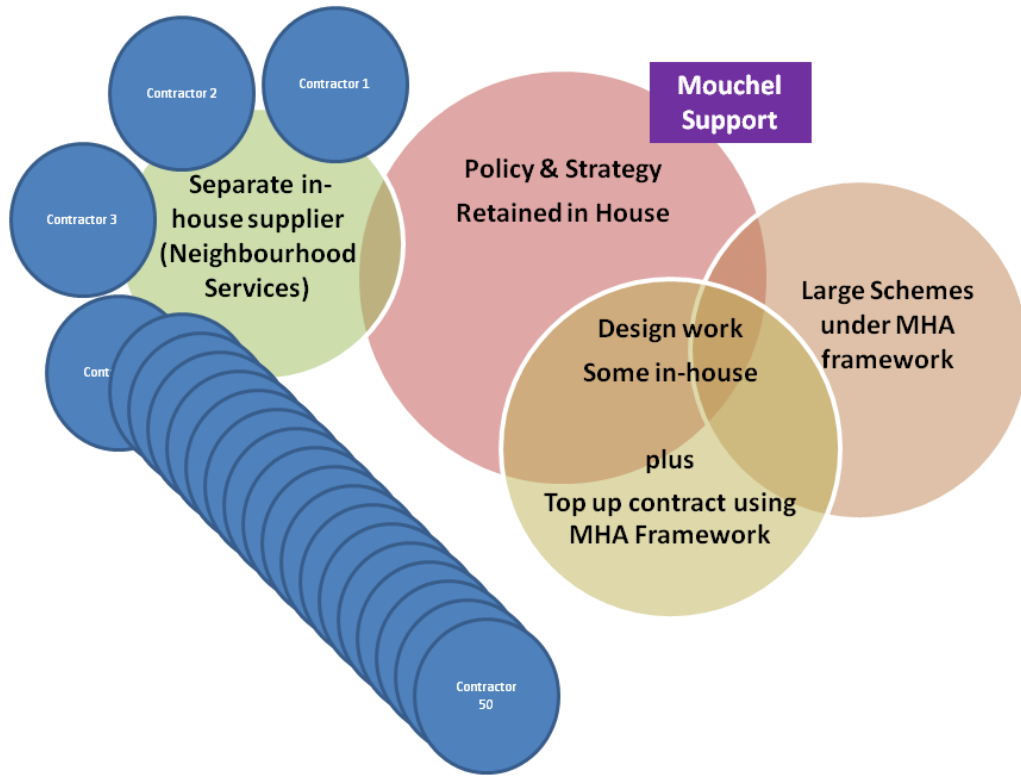
- 6.8. In considering each option, the views of Industry, other Clients and the current views of the broader sector have been considered. [Appendix B](#) gives a summary of various decisions Councils have made over the last few months showing latest trends. Also a review of the financial assumptions made in the original desk top review has been undertaken and the costings of the new options are summarised in [Appendix H](#). Some of the apparent benefits of the preferred model of the desk-top review were due to assumptions that are not based on the outsourcing but to different levels of income generation. These could be equally achieved by implementing the same income generating schemes internally.
- 6.9. The various options have been explained more fully and shown diagrammatically below including the staffing implications of each.
- 6.10. All options would require the Supplier to be involved in a partnership approach with Milton Keynes Council. Any solution must therefore include Early Contractor Involvement in the design process. If possible co-location of staff seems very important and if not possible then a staffed supplier desk at the Client offices and a staffed Client desk at the Suppliers offices would be essential.

**6.11. Option A Business as usual**

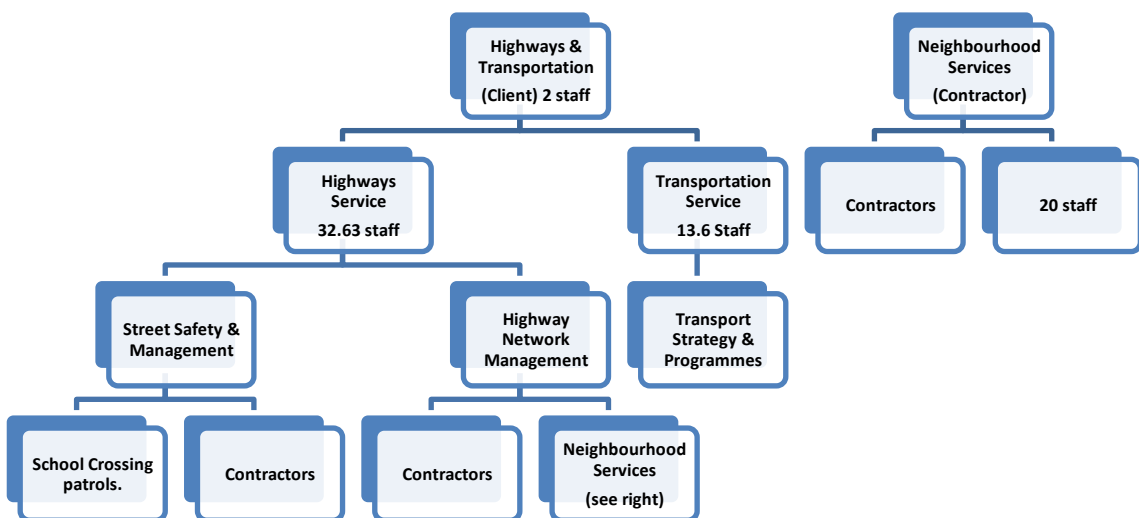
Business as usual (with on-going improvements as planned) including use of Midland Highway Alliance (MHA) framework contracts for large schemes and as Consultancy top-up and using Mouchel for certain skills shortages and support. Comments:

- 6.11.1. This is not a “Do Nothing” option but rather a continuation “as is” with continuous review and optimisation using the present review processes and meeting the Council’s changing requirements.
- 6.11.2. The current business model has many strengths and is argued by some to give the best option for small and medium size enterprises (SMEs) – particularly local ones to be able to deliver services at good value. A number of Councils are bringing work back in-house with this type of mixed economy of SMEs supporting an in-house service. However, the weaknesses of the current model were highlighted in the previous review and although it would be possible to recruit the needed extra skills it is not necessarily the best option for the Council. The challenge to make a significant step change without a structural or contractual change would be difficult. The consultancy work will continue to be topped up using the MHA and that is seen to be giving a 9% saving. By continuing to test the market locally and by combining contracts where appropriate in the future a further 5% saving is estimated on the work

covered by Neighbourhood Services. With this option there is no loss of income.



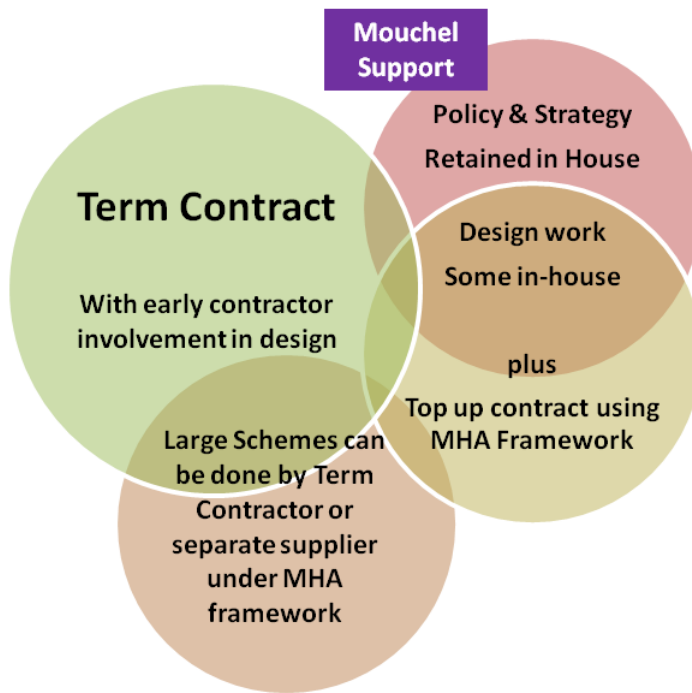
6.11.3. This option does not have any staffing changes at this stage, but will be subject to continuous review and optimisation using the present review processes and meeting the Council’s changing requirements. So the staffing structure would be as currently (shown again below):



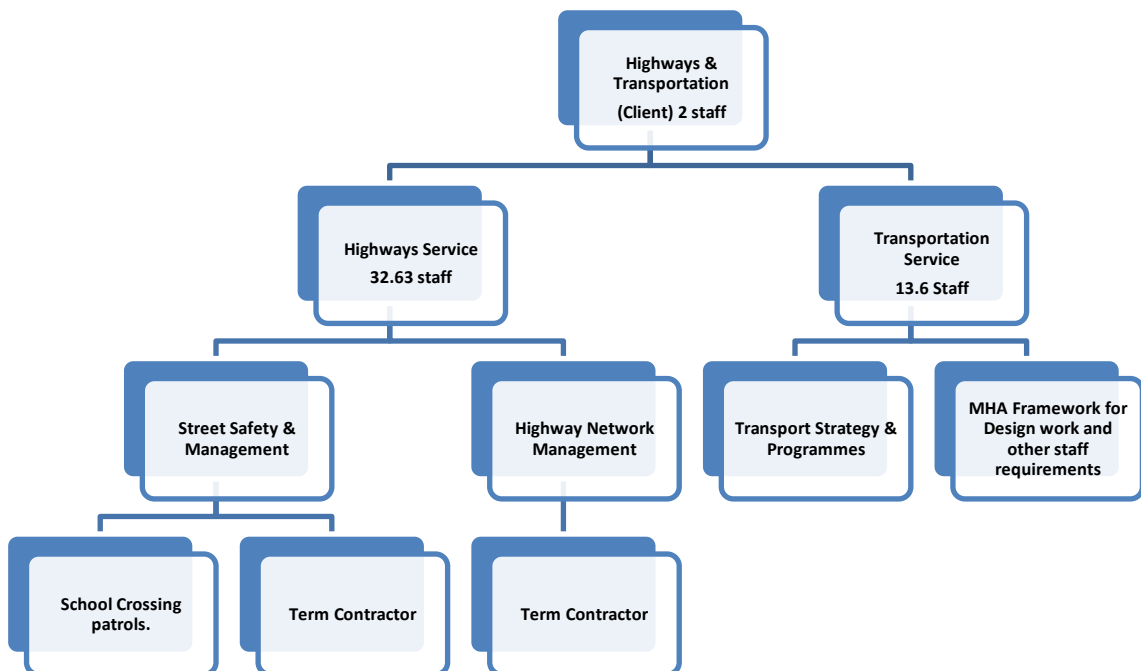
**6.12. Option B Partnership for Term Contract**

A single Partnership Contract for a set period (known as a Term Contract) to any value (but not exclusive over £1.0M) plus use of MHA for large schemes and the MHA for Consultancy top-up and Mouchel for certain skills shortages and support.

- 6.12.1. This option would remove the plethora of contractual arrangements (of almost a 'sub-contract' nature through the in-house provider). Although the current situation is arguably the best option for small and medium size enterprises (SMEs) it does not normally achieve the value for money of a larger, longer contract often referred to as a Term Contract or Term Maintenance Contract (TMC). However, this option does enable medium sized businesses to tender and will also often enable a number of small enterprises to act as specialist sub-contractors whilst gaining the benefit of the larger contractor's safety and technology systems.
- 6.12.2. The TMC can be for the whole of the works or for Highways and Lighting as two separate Lots. Under this option either would be possible. In some places further division of lots for smaller patching work and larger schemes have been used, but this has been found to rarely give better value and just leads to too many interfaces between Contractors.
- 6.12.3. The risks with the interface even between a Highways and a Street Lighting Contractor would favour a single Term Contract. The fact that a larger sized business would be likely to win this type of work would enable wider experience to be brought into the Council including new technology and other innovations at reasonable cost, and likely to provide better control and level of service provision probably at a cheaper price.
- 6.12.4. The reason for the contract to be for orders of any value but not exclusive over £1.0M is that this will give the ability for the Council to use this contract for any Capital schemes if desired, but not to restrict the Council for schemes of high value if better value is found to be by separate procurement arrangements.



6.12.5. This option would give the opportunity to combine the staffing structure into a single client within one department (rather than the current two). The following staffing changes are obviously subject to the normal Council processes but are recommended to save duplication and ensure a clear line management. So the suggested staffing structure would be as shown below, which gives a reduction of over 20 staff who will probably TUPE to the new contractor subject to consultation. A further potential reduction of 7 FTE's has also been identified, but again this is subject to the Council's normal consultation process:



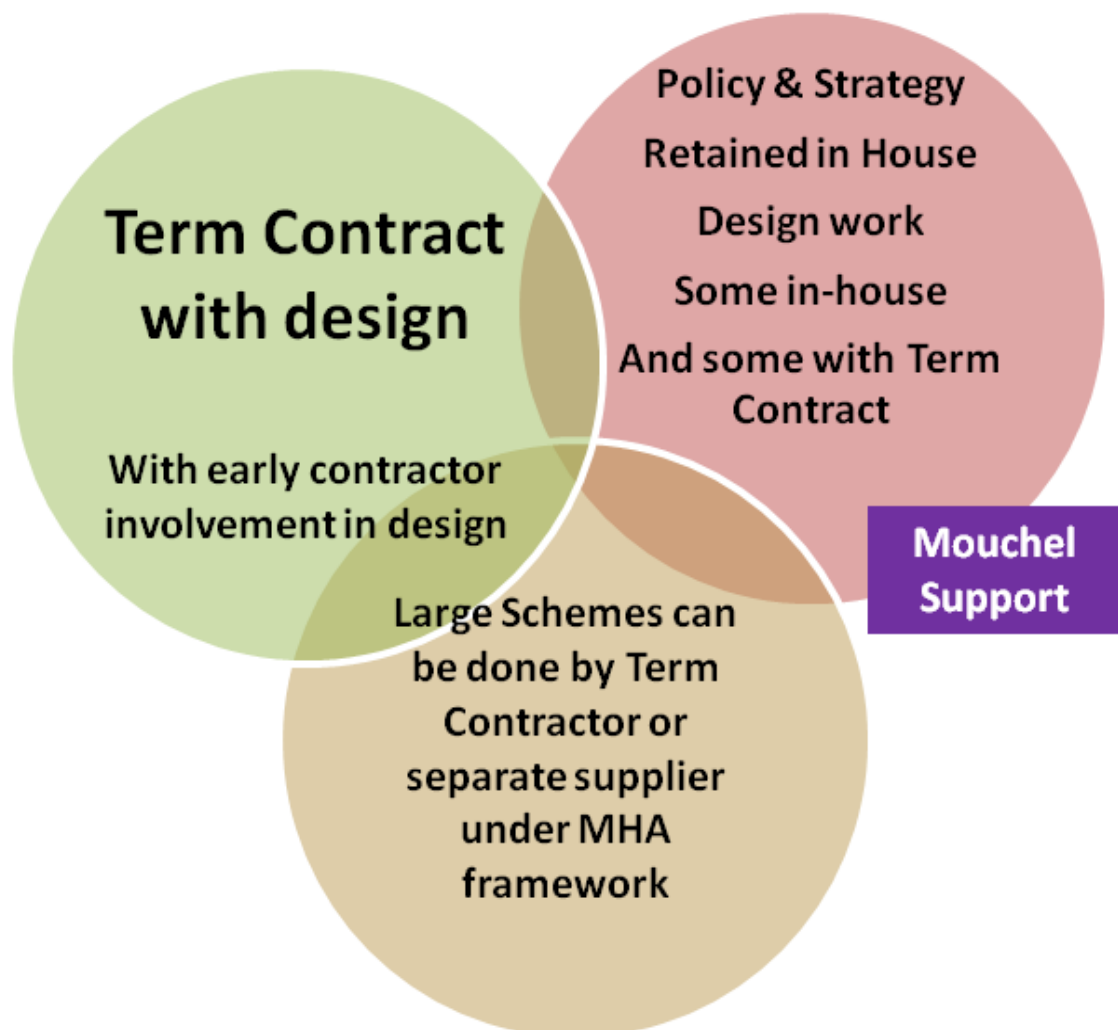


### 6.13. Option C Partnership for Term Contract including Consultancy top-up.

Partnership with Term Contract to any value (but not exclusive over £1.0M) but including Consultancy top-up. Still use Mouchel for certain skills shortages and support until end of existing contractual arrangement.

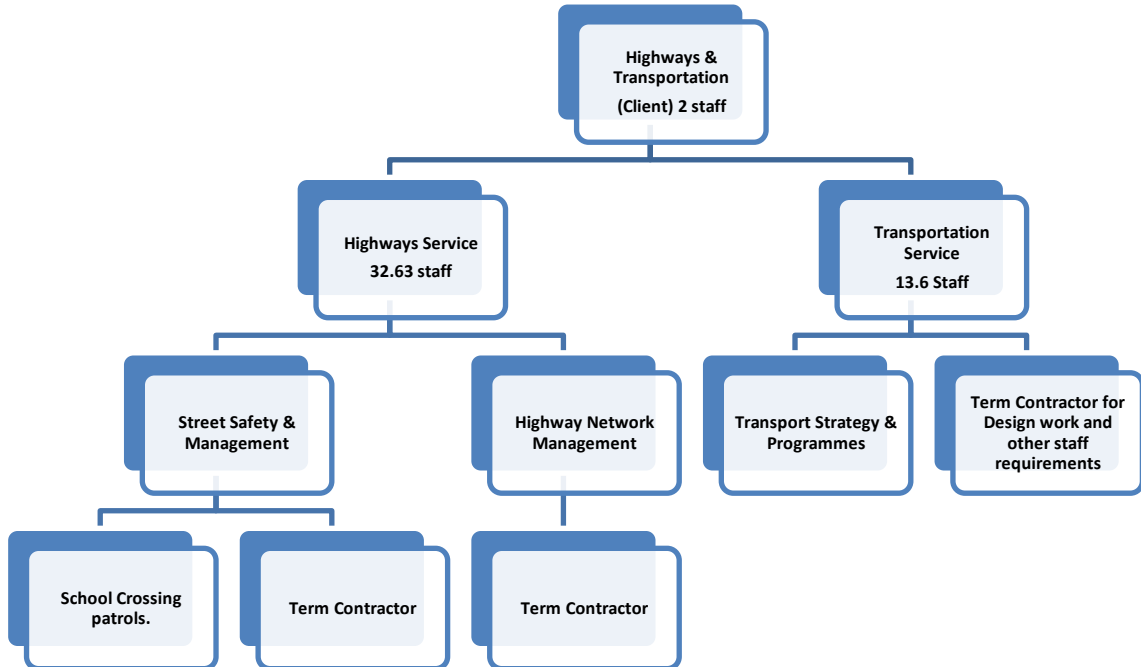
6.13.1. This option is very similar to Option B but instead of using the MHA to Top-up this has a single supplier/partner for both the TMC and the Top-up consultancy work.

6.13.2. This option reduces the risks associated with full outsourcing (see Option D), but retains the option to outsource further, at a later stage. This would fully outsource the Operational aspects in a Term Contract arrangement but would allow a Strategic Partnership approach using NEC 3 contracts. This could lead to immediate savings at low risk but allowing for further areas of outsourcing to be included as the Mouchel contract ends and if seen to be beneficial when staff leave or as a planned step change to outsource the design side.



6.13.3. This option would, like Option B, give the opportunity to combine the staffing structure into a single client within one department (rather than the current two). The structure would be the same as Option B except there would not be

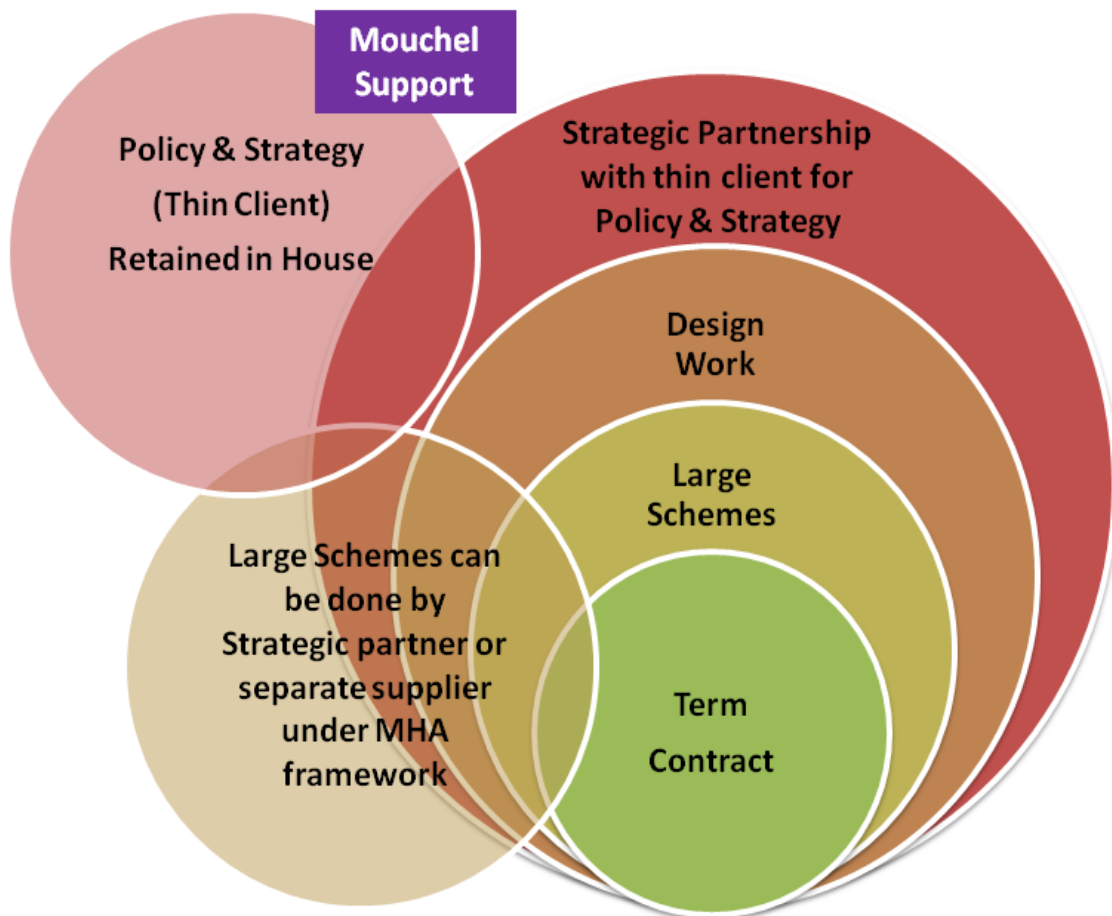
a need for a separate contractor for the Design top-up. Again the staffing changes are obviously subject to the normal Council processes but are recommended to save duplication and ensure a clear line management. So the suggested staffing structure would be as shown below, which gives a reduction of 20 staff who will probably TUPE to the new contractor:



#### 6.14. Option D Strategic Partnership of Term Contract and Consultancy

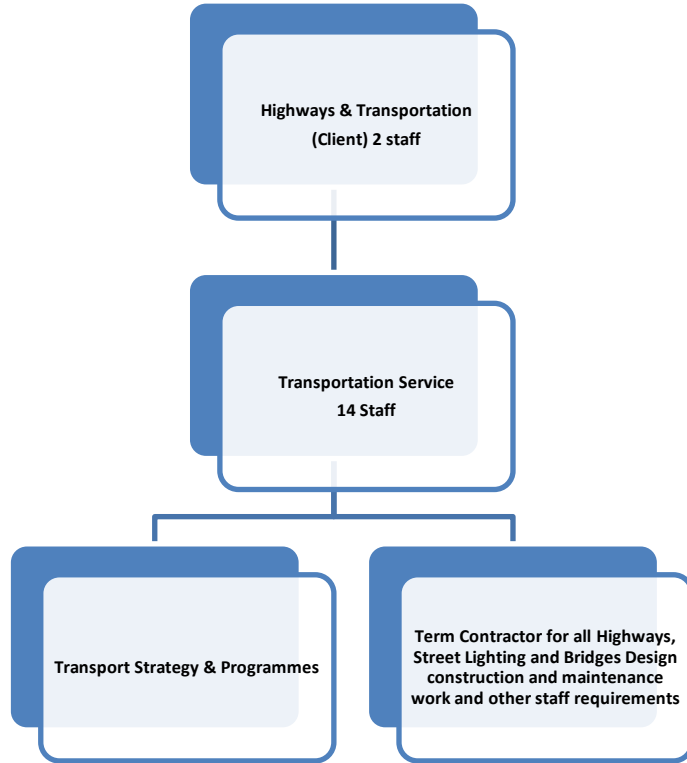
Strategic Partnership with Term Contract to any value (but not exclusive over £1.0M) and full outsourcing of Consultancy. Still use Mouchel where contractually required until end of existing contractual arrangement.

- 6.14.1. This is well known by the Industry where the scope is restricted to Highways (including Street Lighting and Structures) and is an arrangement that has been used by the Highways Agency over the last 10 years or more and by many Councils since.
- 6.14.2. It is interesting that a number of Councils have veered away from this recently although most of that seems to be due to financial control and form of actual pricing mechanisms.
- 6.14.3. If this option were agreed it would probably be best to use a Schedule of Rates (SoR) pricing mechanism as is normal on Term Maintenance Contracts rather than Target Price or Open Book Accountancy methods where Councils' have sometimes lost financial control.



- 6.14.4. This option would, like Options B and C, give the opportunity to combine the staffing structure into a single client within one department (rather than the

current two). The structure would be reduced to the size of the strategic client and transport Services plus the school crossing patrols. Again the staffing changes are obviously subject to the normal Council processes. So the suggested staffing structure would be as shown below, which gives a reduction of 66 staff (including the school crossing patrols) who will probably TUPE to the new contractor:



## 7 How do we get there? Part 3 - Option Analysis (pro's and con's)

### 7.1. Pro's and Con's

7.1.1. In order to determine the best option for the Council several factors need to be considered and lined up with the aims and objectives as given earlier and repeated below:

Reduced Costs

Improve public perceptions of the service and in particular the condition of roads, footways and lighting in the borough.

Provide a faster response to highways defects

Improve quality of fault reporting data

Reduce the likelihood of insurance claims resulting from accidents and injuries on the highway

Increase management of congestion and the demands on the highway network as Milton Keynes grows and regenerates including greater emphasis on sustainable growth and reducing carbon emissions.

Improve community engagement and media management.

7.1.2. In considering each option there are Pro's and Con's a summary table has been produced below that helps identify the various advantages and disadvantages.

OPTION	Advantages (pros)	Disadvantages (cons)
<b>Option A</b>	The business as usual option has no risks in terms of change.	Gives no opportunity for step change.
<b>Option B</b>	Low risk - proven method. Low procurement costs in comparison with Options C and D as restricted procedure used. MHA framework for the Top-up work is already used and proven. Clearer lines of responsibility internally than option A Brings new technology to the Council Brings innovation to the Council Brings right first time inspect & fix No costs of reworking Ability for Early Contractor involvement in all designs	Would need Contract Management training for staff. Would lose internal trading surpluses Would require TUPE transfer of about 20 staff from the Council and a significant potential number (unknown) from contractors.
<b>Option C</b>	Lower procurement costs than Option D but almost certainly higher than Option B Clearer lines of responsibility internally than Option A.	Medium Risk as Contractually "all eggs in one basket" except for in-house cover for the Consultancy Would need Contract Management training for staff

	Brings new technology to the Council Brings innovation to the Council Brings right first time inspect & fix No costs of reworking Ability for Early Contractor involvement in all designs	Would require TUPE transfer of about 20 staff from the Council and a significant potential number (unknown) from contractors.
<b>Option D</b>	Clearer lines of responsibility internally than Option A Brings new technology to the Council Brings innovation to the Council Brings right first time inspect & fix No costs of reworking Ability for Early Contractor involvement in all designs	High Risk as "all eggs in one basket" as no in-house cover. Would require TUPE transfer of over 47 staff from the Council and a significant potential number (unknown) from contractors. Risk of poor public perception. Can lead to lack of control if Management of Contract not adequate. High procurement costs as Competitive Dialogue might be required to ensure best solution.

7.1.3. The above table shows that there are similar benefits in many of the options and so to look at the aims and objectives shows that all the procurement options seem to be able to meet these as below:

Aim and Objective:	Options likely to meet
Improve public perceptions of the service and in particular the condition of roads, footways and lighting in the borough.	Options B, C and D Option A is unlikely to give adequate stimulus to change.
Provide a faster response to highways defects	Options B, C and D
Improve quality of fault reporting data	Options B, C and D
Reduce the likelihood of insurance claims resulting from accidents and injuries on the highway	Options B, C and D
Increase management of congestion and the demands on the highway network as Milton Keynes grows and regenerates including greater emphasis on sustainable growth and reducing carbon emissions.	Options B, C and D
Improve community engagement and media management	Options B, C and D

7.1.4. Therefore in order to choose the best option out of Options B, C and D a wider look at the potential savings, costs, benefits and risks is required, in conjunction with the aims of the OBC. Especially as to how best to drive 21st Century practices into this service area.

**7.2. Savings**

7.2.1. The following savings are specific to the procurement options. The overall potential savings are both generated by restructuring, capital investment and by increased income Permitting of the Utility Companies and the retender of the parking contract..

- 7.2.2. The Industry clearly expects the action of procurement to drive out savings and in order to identify the potential for this an additional questionnaire was sent out following the Industry Day to try to see what level of savings could be achieved. The responses are detailed in [Appendix D1](#)
- 7.2.3. Interestingly the one supplier suggested lifetime savings significantly greater on a Term Contract rather than on a full outsourcing and the other supplier the reverse.
- 7.2.4. By averaging the two responses the resulting percentage savings have been used in the financial projections as follows:

For Term Contract assume a saving of 11.08%  
 For a Full outsourcing assume a figure of 10.76%

The MHA has found that using the Framework has given a 9% saving on the Consultancy work and this is assumed for the relevant work under both options B and C.

- 7.2.5. On these assumptions the costings of each option is detailed in [Appendix H](#)
- 7.2.6. The full year revenue savings of each option as tabulated below:

Full Year Revenue Savings	Option A	Option B	Option C	Option D
	£	£	£	£
<b>OBC savings</b>				
OBC Option Saving	0	(693,457)	(639,457)	(633,040)
Restructuring	0	(185,100)	(185,100)	(217,392)
Loss of Revenue contribution from capital	0	699,451	699,451	699,451
<b>Other savings</b>				
Introduction of TMA Permit Scheme	(160,000)	(160,000)	(160,000)	(160,000)
Retendering of Parking Contract	(200,000)	(200,000)	(200,000)	(200,000)
Capitalisation	0	(900,000)	(900,000)	(900,000)
Infrastructure Investment 2015/16 onwards*	(642,000)	(642,000)	(642,000)	(642,000)
<b>Total Savings</b>	<b>(1,002,000)</b>	<b>(2,081,106)</b>	<b>(2,027,106)</b>	<b>(2,052,981)</b>

\* would not be effective until 2015/16 due to profile of investment

Savings in 2013/14 would be proportionally less to allow for the planned start date of the 1/10/13 and potential redundancy costs.

- 7.2.7. A summary of potential savings, or more correctly, potential increased value for money, on capital works of each option is tabulated below:

<b>Impact on Capital Programme (LTP only)</b>	<b>Option A</b>	<b>Option B</b>	<b>Option C</b>	<b>Option D</b>
	£	£	£	£
Potential Increased value for money	0	(1,175,319)	(1,175,319)	(1,186,772)

- 7.2.8. The total impact that the potential increased value for money could have on the large planned Capital investment of £45 Million is summarised below:

**Total Impact on Planned Capital Investment in Infrastructure (Planned £45m)**

	<b>Option A</b>	<b>Option B</b>	<b>Option C</b>	<b>Option D</b>
	£	£	£	£
Potential Increased value for money on capital investment works	0	(3,739,500)	(3,739,500)	(4,842,000)

- 7.2.9. In summary then the benefits of Capital savings will in itself lead to a reduction in revenue costs. There will also be the ability to increase income outside of the procurement options for example maximising fees and parking income as well as potential permitting for Utilities under the Traffic Management Act. The value of this additional income potential together with the benefits of Capital savings reducing revenue cost is estimated to be in the region of £0.65M in 2013/14 rising to around £1.7M in 2015/16. The proposed contractual arrangement will lead to a restructuring which should also lead to savings estimated to be of the order of £40k in 2013/14 rising to £185k by 2014/15.

### 7.3. Costs of procurement

- 7.3.1. The major costs will be of a one off nature and will be the costs associated with procuring the contract.
- 7.3.2. The Midlands Highways Alliance (MHA) has estimated that the stand-alone costs of procuring this type of contract are in the region of £300k on a one-off basis, if using the Restricted Tender procedure.
- 7.3.3. Evidence suggest that for a Competitive Dialogue this can run into double that figure or more, just to the Council without taking into account the costs to the Tenderers which will therefore be built into their tendered rates.
- 7.3.4. Much of the cost is in releasing people internally to write documents and therefore backfilling their posts for normal service delivery. However, there is also a likelihood of some need for Consultancy support to ensure that the project is delivered on time.
- 7.3.5. The costs, according to the MHA, may reduce to only about £100k if standard documents are used. This would need to be assessed before any final decision is made.



7.3.6. Therefore Option one-off costs can be tabulated as follows:

OPTION	One off costs
Option A	None
Option B	Around £300,000 possibly reducing to £100,000 if using the MHA documents.
Option C	Between £300,000 and £400,000
Option D	In excess of £600,000

#### 7.4. Quality of Service Provision

7.4.1. There is clearly a balance between cost and quality of service provision and this procurement would be evaluated on the basis of the Most Economically Advantageous Tender (MEAT).

7.4.2. Some of the current weaknesses in the provision of services would become key aspects of the quality evaluation and therefore would be almost certain to enhance the current service.

7.4.3. Innovation and new technology could easily be part of the evaluation criteria and will guide the prospective Suppliers in their proposals.

7.4.4. In general, although there is always a risk of reduction in quality of service provision on outsourcing, if the current staff transfer under TUPE to the new Supplier, that is unlikely, and it is more likely that the innovation and introduction of new technology will enhance the quality of service.

7.4.5. Options B, C or D are all expected to provide a similar level of improvement of the overall Quality of Service.

#### 7.5. Risks

7.5.1. There are clearly risks involved in any procurement. The risks for four options have been summarised in each of the Options sheets in [Appendix F](#) and summarised below:

OPTION	Risks	Mitigations/Benefits
Option A	The business as usual option has no risks in terms of change, but gives no opportunity for step change.	Could carry out an internal Lean review (now used by the Highways Agency) which is a systems thinking approach. This could be done with any of the options, or required under the contract.
Option B	Low risk - proven method can include more than one provider (e.g. servicing specific geographical areas of the Borough) if desired. Could run alongside in-house provision. And MHA is providing a framework for the Top-up work.	Would need Contract Management but by using standard NEC Term contract (or similar), subject to a skills audit of the client, staff can be trained up to the required standard.

<b>Option C</b>	Medium Risk as Contractually "all eggs in one basket" except for in-house cover for the Consultancy.	Would need Contract Management but by using standard NEC Term contract (or similar), subject to a skills audit of the client, staff can be trained up to the required standard.
<b>Option D</b>	Often considered High Risk as "all eggs in one basket" as no in-house cover and can lead to lack of control if Management of Contract not adequate.	Could solve all perceived problems if properly controlled – would need a skills audit and training of thin Client to ensure proper Management of Contract.

7.5.2. There are a number of other risks that are inherent in any Highways procurement process. These may be primarily to Milton Keynes Council as Client but also some will be shared with the Service Supplier. These are tabulated in Appendix L

## 7.6. Preferred option

7.6.1. The Highways Delivery options are changing in many places at this time. Several Authorities who have fully outsourced their Highways, following review, are now bringing back in-house all or some of the services. [Appendix B](#) gives a summary of recent decisions by other Councils. The traditional contracts have served well but in the current economic climate Councils' are looking at new ways of pulling out the greatest savings whilst still maintaining an acceptable level of control. The full or partial outsourcing options would be a large step change for Milton Keynes Council in the light of the current situation of about 50 different contractual and service delivery arrangements.

7.6.2. Following a review of all the options and the detailed analysis on the four options detailed above, **Option B** is the preferred option which will be recommended to Members. This would be very straightforward to procure and would be readily understood by the market using a standard form of Term Contract. It could still be able to be delivered by October 2013, and tender evaluation criteria could be developed that encouraged use of SME's to boost the local economy. Other benefits of this option are that there seems to be a move towards this type of approach by leading experts in the field and by a number of other Councils.

7.6.3. This option is also seen as low risk whilst delivering good potential savings, especially in the short to medium term.

7.6.4. Option B enables the development of a stronger more expert in-house Client whilst obtaining the financial savings at a similar level with much lower risk than either Options C or D.

7.6.5. It is considered that Options C or D would be steps too far at this stage for the Council, especially in the light of recent decisions by other Councils that had gone for full outsourcing now bringing some of the functions back in-house. Their experiences have given them insight into the problems with full outsourcing and Milton Keynes can learn from their experience.

7.6.6. This partnering term contract proposal is significantly different from the existing arrangements, taking into account the lessons learnt from existing practices, by introducing a range of performance criteria. This proposal will be designed

to address the concerns of Members and residents on quality, performance, workmanship and timelines of delivery.

7.6.7. The emphasis will be on partnership working, ensuring that the Council's values and objectives are delivered through its third party partner. The proposed contract will also cover sustainability objectives, employment opportunities, better communication, branding and joint working to provide more effective and responsive services to our residents.

7.6.8. The main goals will be to:

- Maximise the opportunities for efficiencies (cashable and non-cashable)
- Create a 'One Team' culture with unified branding and values
- Benefit from reduced network occupancy through co-ordinated working
- Reduce our administration burden with a single provider
- Generate greater community job benefits through apprentice and trainee opportunities.

7.6.9. Working in Partnership

7.6.9.1. The culture will instil a collaborative approach to delivery. The operation of such a contract will be in the spirit of partnership working, generating pride in Milton Keynes. The partnership will use the opportunity to recruit staff from within MK and provide opportunities for trainee schemes.

7.6.10. Keeping the Network Moving

7.6.10.1. Managing the highway works proactively will ensure maximum network availability which is critical to reducing congestion and ensuring the economic wellbeing of MK. Minimising the impact of works, undertaking works off-peak and in a co-ordinated manner. Through a robust Network Management Plan we will co-ordinate works with all users and providers, Statutory Undertakers and the local bus companies. Residents will be informed and fully engaged with works through a contract specific Public Engagement Plan.

7.6.11. Maximising our Budgets

7.6.11.1. We will maximise our budget and provide opportunity to reinvest into the highways asset with the partner by delivering cost/efficiency savings through productivity improvements, the introduction of technology to allow real-time visibility of operations, and energy management.

7.6.12. Performance Management

7.6.12.1. Performance measures will be aligned to our corporate priorities to ensure relevance demonstrating continual improvement over the life of the contract. They will be likely to include: Quality of Work; Safety; Consideration to the Public; Delivery within Time Requirements; and Innovation and Sustainability.

7.6.13. Benefits

- 7.6.13.1. Through this proposal the Council will have the capability to construct, at reasonable but varying periods of notice, and within reasonable time periods, civil engineering works, principally comprising, but not limited to:
- footway or carriageway construction or reconstruction works,
  - Routine highways and footways responsive maintenance
  - 24/7 emergency response
  - Cyclic works
  - traffic management works,
  - road safety works
  - bridges maintenance repairs,
  - highways verge maintenance,
  - drainage,
  - duct installation works,
  - street lighting inspect (scouting) and fix
  - street lighting design & deliver capital schemes
  - inspections,
  - winter maintenance,
  - capital investment works,
  - lining & signage and environmental improvement works which may be on or off the highway.
- 7.6.13.2. There will also be benefits in terms of achieving the main aims and objectives:
- To improve public perceptions on the condition of roads, footways and lighting in the borough
  - A faster response to highways defects
  - To improve quality of fault reporting data
  - To reduce the likelihood of insurance claims resulting from accidents and injuries on the highway
- 7.6.13.3. There will also be benefits of having a fully integrated Responsive Highways Repairs Service based on 3 key components:
- Inspect and Fix
  - Next Day Fix – (reported faults)
  - Back Office Improvements
- 7.6.13.4. The term contract will also emphasise the need to develop enhanced sustainability requirements. This will include the requirement to develop a Sustainability Action Plan for the delivery of the service to ensure that it uses working methods, equipment and materials that will improve sustainability of delivering requirements, with particular emphasis on the following objectives in line with the Council's Low Carbon and Action Plan strategy:
- increased recycled content
  - reduced transport distances
  - whole life cost considerations
  - reduced energy use and CO2 emissions
  - waste reduction
  - reducing impact on the community i.e. noise & disruption
- 7.6.13.5. Other benefits of a term contract include:
- Requirement to register under the Considerate Constructor Scheme

- Ability to use Council Branding in vehicle livery to show Milton Keynes Council actively working on Highways, Street Lighting and Bridge works.
- Prompt Payment of Sub-Contractors
- Opportunity for both the client and partner to co-locate necessary staff as part of the council's accommodation savings.
- Delivery of services to the highest standards.

## 8 How do we get there? Part 4 - Procurement

- 8.1. The preferred option will need to be procured and using the Restricted Tender procedure a timetable is given that would enable the contract to be in place by October 2013. This is important with a Highways Contract as the Winter Gritting function needs to be handed over prior to the start of the Winter season.
- 8.2. It is recommended that procurement under the Restricted Tender procedure using NEC3 Term Contract be agreed by Members at Cabinet in July 2012, using, if possible, the MHA standardised documentation.
- 8.3. It is noted that if the MHA standardised document is used Milton Keynes will be supported by the expert MHA board which is chaired by the HMEP/DfT lead (Matthew Lugg) and offers expert guidance and support. This process places Milton Keynes at the forefront and adds to council's reputation
- 8.4. In order to achieve the timescales it is suggested that work on the documentation is started prior to the Cabinet meeting.
- 8.5. It is also thought useful to arrange a further series of industry interviews once Cabinet have made their decision to check with the Industry details on the actual information they would require, the timescales they would need and their view of the following specifics:
- The use of the NEC 3 Term Contract
  - The use of the MHA standardised documentation, if available.
  - The use of the new Price Adjustment Formulae Indices (Highway Maintenance) 2010 that some of the Industry recommended, and how that would reduce risk to both parties with instability in the materials market.
  - The basis of exclusivity for works orders up to £1.0M but could the option to use the contract for orders of any value in excess of £1.0M but that the Council reserves the right to put these out to contract separately at its sole discretion
  - The length of the Contract Term which it is currently proposed would be 7 years with 3 years extension.
  - The use of Key performance Indicators and how that could be used for continuous improvement.
  - The scope of the contract.
  - Any other issues that the procurement team wish to check with the market prior to OJEU
- 8.6. This would then be followed with an OJEU notice being published in August 2012 with a Pre-qualification Questionnaire (PQQ) to select the short-list in October 2012
- 8.7. The Invitation to Tender (ITT) would then need to be ready which would require the following documents to be sent out:
- Instructions for Tender
  - Form of Contract
  - Specification
  - Standard Details including drawings

- Asset Register
  - Evaluation Criteria and Model
  - Lease agreements for depot and other assets
  - TUPE information
- 8.8. The timescales envisaged using the Restricted Tender procedure are given in [Appendix J](#)
- 8.9. The scope of the OJEU notice is designed to keep it as open as possible to allow for any extra areas that may be added in later. It is broadly Highway maintenance work: including carriageway, footway and cycleway construction and resurfacing works; bridge inspections and construction and maintenance work; drainage works; public-lighting and traffic light installation and maintenance; winter service; signage; road markings; traffic control and monitoring services; project management consultancy services. For the full scope see [Appendix K](#).
- 8.10. There are some ways of reducing the amount of work involved instead of writing all of the documents from scratch. Both regionally and nationally groups are working to produce standardised documentation. The main two are a national one produced by the Highways Maintenance Efficiency Programme (HMEP) which is a Government funded sector-led transformation programme to maximise returns from highways investment and delivery efficiency and a regional one being produced by the Midland Highways Alliance (MHA) of which Milton Keynes Council is already a member.
- 8.11. Due to the fact that Milton Keynes Council is already a member of the MHA this is seen as the preferred option and will be used if the documentation suits and is available within the necessary timescale. Otherwise the Council will have to write its own and this may require additional resources to ensure delivery within the required timeframe.
- 8.12. It is understood the MHA have produced this standard Term maintenance Contract and it is currently being piloted by Nottinghamshire County Council and the MHA are currently looking for the next tranche of authorities to use it, probably in the summer.
- 8.13. The MHA term working group has estimated that an external procurement of term maintenance delivery is costing in the region of £300k per procurement process. If Milton Keynes procurement was to go ahead for 2013 then it could act as a pilot project to the MHA term working group current focus by utilising the common MHA term Contract that has already been developed. This is estimated by the MHA to reduce the cost to the order of £100k. It is also noted that the HMEP is currently considering rolling out a standard form of highway maintenance contract documentation, nationally, based on the work being undertaken within the MHA.
- 8.14. Using the MHA contract would also have the added advantage of incorporating the current best practice principles and full collaboration through a fast track established route to delivering efficient & effective services. Milton Keynes Council would become a leading Authority in procuring through the common contract and would realise the benefits of support and lessons learnt through the term community and enable common benchmarking facilities.

8.15. The Council would still need to produce any extra clauses and provide its:

- Asset Register
- Evaluation Criteria and Model
- Lease agreements for depot and other assets
- TUPE Information.



**9 How do we stay there?**

- 9.1. The OBC is mainly about reviewing the current need to change, and how to then change. However, it is important that the benefits of the process and the resulting outcomes are not only maintained but continued to be reviewed as part of the continuous improvement.
- 9.2. There is undoubtedly a need for training of the in-house Client to manage the new contract but this is only part of the on-going needs. There are a number of techniques available for looking at process review, many of which are now used widely in the Industry. Lean systems are now being used by many companies in the Highways sector and also by some local Authorities.
- 9.3. Whilst it is envisaged to make savings on capital and revenue works in the first year, it is proposed to offset some of these to ensure appropriate software and hardware are in place to enable integrated systems with the new Supplier.
- 9.4. In order to start the process of continuous improvement it is suggested that a gap analysis review is carried out once the procurement has been progressed but before the new Contract is mobilised. This will help identify any competency or process issues that might hinder the full benefits being realised, and lead to smarter working.

## Appendices

### Appendix A Delegated Decision 21<sup>st</sup> December 2011

**TITLE OF REPORT:** Organisational Transformation Programme (OTP) Review of the Longer Term Delivery of Highways and Transportation Services

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#### Executive Summary:

As part of the Organisational Transformation Programme (OTP) a review of the longer term delivery of Highways and Transportation services has been undertaken.

The review concluded that there are both service delivery and financial benefits to a partial outsourcing of highways and transportation functions to a Strategic Partner whilst retaining strategy and policy in-house. The financial benefits could be in the region of £2m per annum.

The next step for this work is to develop an Outline Business Case (OBC) that validates the review conclusions and then to seek Cabinet approval to proceed with the identification and appointment of a Strategic Partner through tendering. In order to develop the OBC a Prior Information Notice (PIN) needs to be advertised in the Official Journal of the European Union (OJEU). The PIN will generate interest from industry and open discussions facilitating an industry day which will quantify market appetite to take on the role of Strategic Partner. The advertising of PIN does not commit the Authority to proceed with the appointment of a Strategic Partner.

#### 1. Recommendation(s)

- (a) That Council proceeds with the issue of the Prior Information Notice in the Official Journal of the European Union in order to test industry appetite.
- (b) That an Outline Business Case and recommendation is developed based on industry response and brought to Cabinet for approval in June 2012.

#### 2. Issues

2.1 The review concluded that service and financial benefits of up to £2m per annum could be derived from appointing a Strategic Partner to deliver highways and transportation functions whilst retaining strategy and policy in-house.

2.2 Table 1 below details the services which are considered to be in and out of scope. Those considered in scope could potentially be delivered by a Strategic Partner.

**Table 1**

In Scope Functions (Highways)	Out of Scope Functions (Transport)
All highway maintenance (Inc. footway and carriageway )functions including: <ul style="list-style-type: none"> <li>• routine maintenance;</li> <li>• surfacing;</li> <li>• emergency response;</li> <li>• bridge maintenance;</li> <li>• grounds maintenance (excluding landscaping and grass cutting);</li> <li>• drainage;</li> <li>• street lighting;</li> <li>• winter maintenance; and</li> <li>• lining and signage.</li> </ul>	All transportation functions including: <ul style="list-style-type: none"> <li>• strategy &amp; policy development;</li> <li>• central government and European Union funding bids;</li> <li>• passenger transport (already with Mouchel);</li> <li>• land charges; and</li> <li>• strategic parking</li> </ul>
Road Safety	
Traffic management	
Programme and project management of transport and highways services	
Parking Operations	

2.4 To ensure that the OBC is robust it is necessary to engage with potential industry suppliers. This can be achieved by issuing a Prior Information Notice to the market and holding an industry day, this will then allow the Council to test industry appetite first hand and confirm which services should be in scope. It will also allow the Council to better understand the service and financial benefits that may be achieved.

2.5 The issuing of the PIN is the first step that could lead to the eventual appointment of a Strategic Partner; it does not commit the Council to proceed with the appointment of a Strategic Partner. The second step is production of the OBC which will be submitted to Cabinet for approval. This will lead to the commencement of a procurement process.

2.6 The result of this testing will be the development of an Outline Business Case to be brought before Cabinet in June 2012.

2.7 The Outline Business Case will incorporate the principles of the public access strategy that is being presented to Cabinet in January 2012.

**3. Alternative Options**

3.1 The review also considered a number of other options including continuing with business as usual and a full outsourcing of all the existing functions delivered by Highways and Transportation.

3.2 The review concluded that the other options would not generate an equivalent scale of service and financial benefits within an acceptable timeframe and at the same level of risk. These options will be re-tested as part of the Outline Business Case development.

**4. Implications**

**4.1 Policy**

There are no implications as a result of this Delegated Decision; Cabinet will have three opportunities to review this work going forward:

- In June 2012 when Cabinet is asked to approve the Outline Business Case and tender process.
- Early in 2013 Cabinet (if above is approved) will be asked to approve the preferred bidder, and
- In late summer 2013 when Cabinet will be asked to approve contract award.

**4.2 Resources and Risk**

There will be a cost of around £50,000 to fund the production of the Outline Business Case which will be met from the Value for Money Reserve. The cost will arise in procuring industry support to verify the Outline Business Case and provide assurance to Cabinet that is it a robust proposition.

Capital	Revenue	Accommodation
IT	Medium Term Plan	Asset Management

## Appendix B Review of Recent National Trends

Looking at various press reports over the past few months there has clearly been a tendency away from large outsourcing towards more traditional forms of contract and in some cases an in-sourcing. In Local Transport Today a number of articles have shown the way various Authorities are changing their thinking.

Council	Decision
Cumbria County Council	Transfer of 300 staff back in-house from Amey for delivery of highways maintenance work from April 2012. The services being 'in-sourced' include reactive maintenance, winter maintenance, street lighting maintenance, fleet management and operating the Windermere Ferry and the Jubilee Bridge in Barrow. Cumbria's Conservative/Labour cabinet believes that bringing the services back in-house will give it more direct control and flexibility over the work carried out, while still maintaining the ability to contract out specialist and larger maintenance jobs. The move follows the return to the county council of 270 technical staff from Cumbria's strategic partner of ten years, Capita Symonds, last year.
Rotherham Metropolitan Borough Council	In 2011 in-sourced highways services.
London Borough of Ealing	In 2011 in-sourced highways services with a predicted saving of £3.3M per annum
Norfolk County Council	Considering retaining in-house delivery in a 'mixed economy' approach. Mike Jackson, Norfolk County Council's director of environment, transport and development, presented councillors last week with a report on options for replacing its technical services and maintenance contracts in 2014. He said there was "no one optimum model of delivery". "Benchmarking 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," he said. "Officers believe it is about the style of authority members would wish to operate and what members feel most comfortable with."
Gloucestershire County Council	Considering replacing its outcome-based maintenance contract with a more rigid 'schedule of rates' contract to provide greater certainty on cost. A number of highway authorities have adopted a target cost approach whereby contractors are paid to develop innovative ways of delivering high-level outcomes rather than lists of jobs. But more recently councils have opted for contracts with a schedule of rates for each item of work carried out.
Buckinghamshire County Council	Is expanding its in-house highways staff after the authority acknowledged the need for better performance management of an innovative term maintenance contract. The authority has agreed to strengthen the six-strong 'thin client' in order to provide "a stronger focus on the needs of the customer", councillor Peter Hardy, cabinet member for transport, told LTT. The move follows a scrutiny report from councillors suggesting that the client's size "could be a potential weakness in terms of managing changes in personnel, providing effective challenge and keeping pace with the increasing volume of work undertaken by the

	<p>contractor". The scrutiny review found that, while the contract has successfully delivered efficiency savings, "slow or non-resolution of reported highways faults is an area of frustration for the public". "While financial efficiencies are a sound rationale for contracting services, the need to remain responsive to customer priorities must remain paramount."</p>
Derby City Council	<p>Decided to end the term maintenance contract with Carillion in August 2013 and instead deliver reactive maintenance with in-house staff to save £311,000 by reducing overheads. Paul Robinson, the strategic director of neighbourhoods, told the cabinet: "Letting a contract to an external contractor has always meant that any profit made by the service leaves the council and cannot be reinvested. This has been seen as part of the price for efficiency. But reactive maintenance is difficult to price and contractors often have allowances factored in for unknowns. Alternatively contractors can submit unrealistically low bids that lead to claims against the council as they try and recoup their losses." The council will use in-house teams for "small and uncomplicated repairs up to a value of £100K," a local framework contract for medium-sized schemes up to £1m and the Midlands Highways Alliance framework for projects over £1m.</p>
Hertfordshire County Council	<p>Even the large outsourcing partnership at Hertfordshire CC has recently been let on a different basis, making it less a single supplier and more of a mixed economy. Stuart Pile, Cabinet Member for Highways and Transport, said: "The end of the existing contracts has given us an opportunity to rethink how we structure the highways service and we're making some significant changes. The Hertfordshire Highways contracts were recognised as innovative when they were set up ten years ago. However, the industry has moved on and – if we're going to provide the best service possible for our residents – so must we."</p> <p>The contract covers the delivery of routine, planned, cyclical and reactive maintenance and improvement work. It also includes performance management mechanisms under which the supplier may be awarded other work – including road, pavement and drainage programmes and transport and safety schemes – depending on their performance.</p> <p>Hertfordshire County Council is also procuring a client support contract to provide professional support, specialist contracts for structures and transport planning, and a framework for structural maintenance.</p>
Rochdale Borough Council	<p>Rochdale Borough Council will bring some services 'in house' that are currently delivered externally. The original contract included targets for the delivery of jobs growth which have become increasingly difficult to achieve under the global recession, and this, together with a push for even further efficiencies, are the key drivers behind the decision.</p>

## Appendix C Industry Consultation

- C1 To progress the Industry Day a questionnaire was produced and a wide scope was developed for the PIN thereby testing wider options.
- C2 This could enable the packaging of the contract as a number of Lots or of other ways of delivering the service, which would possibly offer better value and lower risk at this stage. If such contracts were then let in such a way to be co-terminating then the fuller outsourcing could be done at a later stage.
- C3 Alternatively the contracts could be let with a flexible approach to allow further outsourcing within the contract. This was particularly important in the light of some of the work being carried out by Mouchel as part of their existing contract.
- C4 The Industry was consulted using an OJEU PIN to raise awareness with a Questionnaire and Industry Day which was held on 28 February 2012. Following the Industry Day a short Questionnaire was sent and returned.
- C5 The response from different sectors of the Industry was encouraging demonstrating a broad range of interest and subsequent input into the process. The percentage of the different sectors of the Industry responding to the questionnaire or attending the Industry Day is shown below:

Type of Supplier	Questionnaire	Industry Day
1. Transport Services provider	21%	15%
2. Highways Contractor	16%	29%
3. Highways Consultancy	11%	20%
4. Highways Material Supplier	7%	5%
5. Highways Vehicle & Plant Supplier	10%	2%
6. Street Lighting Consultancy	10%	12%
7. Street Lighting Contractor	13%	11%
8. Other	12%	6%

- C6 Although not easily visible in the above it was clear that a number of large consortia that would want a full outsourcing (at least of Highways) were over represented in both the answers to the Questionnaire and in particular in the Industry Day. Therefore it is important that percentages shown in Appendix D and other information is taken in the light of that built-in bias from the Industry Representation. However, the range of responses shows that there is a wide variety of views from Industry and there were very few companies that stated they would not bid on certain packaging arrangements.
- C7 One of the chief aims of holding an Industry Day is to establish the interest from the market and the effect packaging of the Contract could have on the potential interest. The large level of interest from such a wide section of the market has helped confirm that there should be adequate interest from the market for any of the options considered.
- C8 Following feedback at the Industry Day it was decided that there was no benefit in further consideration of certain options, for example Industry

- 
- providing upfront investment, as currently the Council can borrow money at a cheaper rate.
- C9 At the Industry Day a series of questions, originally posed in the Questionnaire, were asked again anonymously by interactive keypads. The major questions and the responses both from the Questionnaire and the Industry Day have been summarised in [Appendix D](#).
- C10 Some questions were not able to be summarised statistically from the Questionnaire as many options were discussed in detail for different scenarios. A selection of quotes is given in such circumstances.
- C11 The Industry was asked for their views on the different tendering procedure for this type of contract.
- C12 On the Industry Day many thought that the shortened competitive dialogue was the best procedure, which was unexpected. On further analysis it seemed to be because the Industry thought that the Council was unclear about what it wanted due to the open nature of the Industry Day. If the Council knows what it wants in advance of tendering the Restricted Tender procedure is generally the cheapest and often the best for both the Client and the Suppliers. 76% of the market believed that using Competitive Dialogue would cost significantly more to procure than using the Restricted Tender procedure, which is in line with procurement experience.
- C13 Eight separate ideas (including the original desk top review models) were under consideration and these were put to the Industry in both the Questionnaire and on the Industry Day:
1. Full outsource of Highways and Transport Service
  2. Partial Outsource of total Highways Service
  3. Partial Outsource of total Transport Service
  4. Top-up Consultancy Service for Highways and/or Transport
  5. Term Contract for Highways and Street Lighting Work
  6. Design and Build contract for large projects
  7. Selection of above as Lots
  8. Other
- C14 The Industry had a wide selection of views on the right solution for Milton Keynes Council and [Appendix D](#) gives several quotes from the Questionnaires and a table of preferences from the Industry.
- C15 The key finding was that the Industry has a clear appetite for working with Milton Keynes but they have a wide variety of views as to how the service could be best delivered.
- C16 Other issues like benefits and risks associated with the outsourcing are also covered in the Appendix.

## Appendix D Summary of Industry responses.

The Industry were engaged following the issuing of a PIN. They were asked to complete a Questionnaire prior to the Industry Day. Further questions were asked as well as repeating some at the Industry Day by use of interactive key pads which allowed companies to respond anonymously to the questions.

D1 Some questions (like the first were not able to be summarised statistically from the Questionnaire as many options were spoken of in more detail for different scenarios. A selection of quotes is given in such circumstances.

**D2 Question 1 - What Procurement Procedure do you believe to be the best on this project for Milton Keynes Council?**

D3 For information the main types of tendering procedure are:

Open Tender:

An Open Tender is an EU (European Union) tender procedure with only one stage because it requires no use of a selection stage. There is no opportunity to short list suppliers using this approach. All suppliers responding to an Open Tender are provided with the tender documents (ITT - Invitation to Tender) to complete and return.

Restricted Tender:

A Restricted Tender is an EU tender procedure with two stages. Suppliers who express an interest in the contract are sent a Pre-Qualification Questionnaire (PQQ). If they meet the criteria, they are then shortlisted and invited to tender (ITT stage).

Competitive Dialogue:

The EU directives introduced a new procedure, the Competitive Dialogue. It specifically permits dialogue between the contracting authority and contractors during the stages of the procurement process. This procedure is aimed at large, complex contracts. It enables contracting authorities to develop specifications with the input of contractors, and to assist contractors in developing tenders that are responsive to the specifications.

Also - Shortened Competitive Dialogue:

This is the same as the Competitive Dialogue Process, although one of the stages within the process is not used (the Invitation to Submit Outline Solutions) and thus shortens the process as Tenderers move straight to submitting final solutions.

D4 Industry Responses were:

D5 "From our experience...there are significant benefits to the competitive dialogue process as opposed to restricted procurement when seeking a bespoke solution"

D6 "In terms of the overall cost of procurement the restricted procedure will be most cost effective for the Council and the Bidders"

D7 "A restricted tender process is our preferred option for a long term high value contract."

Tendering procedure	Questionnaire	Industry Day
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Open Procedure	N/A	12%
Restricted Tender procedure	N/A	12%
Shortened Competitive Dialogue	N/A	67%
Full Competitive Dialogue	N/A	9%

D8 The fact that on the Industry Day so many thought that the shortened competitive dialogue was the best procedure was a surprise. On further analysis it is understood to be because the Industry thought that the Council were unclear about what they wanted due to the open nature of the Industry Day. It is clear that if the Council knows what it wants in advance of tendering the Restricted Tender procedure is generally the cheapest and often the best for both the Client and the Suppliers. 76% of the market believed that using Competitive Dialogue would cost significantly more to procure than using the Restricted Tender procedure, which is in line with experience.

**D9 Question 2 - What do you believe to be the best way to package the work on this project for Milton Keynes Council.**

D10 For information the Questionnaire and the Industry Day looked at 8 ideas:

1. Full outsource of Highways and Transport Service
2. Partial Outsource of total Highways Service
3. Partial Outsource of total Transport Service
4. Top-up Consultancy Service for Highways and/or Transport
5. Term Contract for Highways and Street Lighting Work
6. Design and Build contract for large projects
7. Selection of above as Lots
8. Other

D11 Industry had a wide selection of views on the right solution for Milton Keynes Council and here are some quotes from the Questionnaire and statistics from the Industry Day:

D12 “In our experience there are significant efficiencies to be gained from combining services within a broader based contract. Within a number of local authorities there is a trend towards reducing the number of interfaces with service suppliers and using a sole supplier on an “end to end basis”. Rather than the old concerns regarding “too many eggs in one basket”, they see that combining responsibilities with one supplier leads to improved accountability, effectiveness and efficiency.”

D13 “Separate contracts for each activity. The client keeps control of each activity, and is not “locked in” with one provider giving variable results in different fields. The client avoids the “main contractor’s mark-up” on activities that are invariably subbed out. The client keeps direct contact with the actual provider of the service, as opposed to passing messages down the chain, which leads to inefficiencies and confusion.”

D14 “We don’t believe that total outsourcing is always the best answer. If an in-house highways or transport service is retained then it is likely that the Council will want to procure external services from time to time. This could be through

a top-up arrangement with a single service partner or could be procured with a range of suppliers.”

D15 “The other option we suggest is for the Council to procure a ‘Commercial and Commissioning Partner’ to bring a new discipline to optimising costs, supply chain performance and programme management in a flexible and transparent way whilst creating enhanced capability within the Council.”

D16 “‘Client’ function kept in house. Front line services outsourced with term contract for lesser work and major framework for traditional/D&B contracts above £1M. This is a more traditional approach as it offers the best balance.

**Advantages**

Tried and tested approach

Balanced approach – Various Providers

**Disadvantages**

No single line of contact

Duplication of contract management

Not necessarily cheapest option

Too many strategic partners who may have differing goals.”

D17 “Highways Maintenance works:  
Major Civil Engineering works (over £500k)  
Minor Civil Engineering works (up to £499k)  
Major Surfacing works (over £500k)  
Minor Surfacing works (up to £499k)  
Major Structure works (over £500k)  
Minor Structures (up to £499k).

D18 We strongly believe that Council’s should retain some source of direct labour organisation (DLO) in order to maintain management and operational teams that possess the skills, knowledge and experience of your local communities and their requirements. This information is vital to the successful running of any contract and winning contractors can work with these DLO’s in partnership to better service the local community.”

D19 “A term maintenance contract using a framework of contractors whilst keeping the management and design in house would offer the most advantageous prospect to the council. The benefits this would offer are, accurate control of all activities being carried out on behalf of the council, a selection of contractors to be used to provide a quality service, by using quarterly contractor assessments. The risks associated with using as single contractor on a full outsource of all services leaves the council vulnerable to poor contractor performance and potentially damaging claims that could result in the council spending more on trying to manage a large commercially aggressive organisation. Poor performance leaving the council with a public relations issue such as has happened on the rail contracts.”

Packaging Arrangement	Questionnaire	Industry Day
Full outsource of Highways and Transport Service	21%	29%
Partial Outsource of total Highways Service	20%	21%
Partial Outsource of total Transport Service	10%	6%
Top-up Consultancy Service for Highways and/or Transport	7%	6%
Term Contract for Highways and Street Lighting Work	16%	17%
Design and Build contract for large projects	13%	10%
Selection of above as Lots	6%	7%
Other	7%	4%

D20 Overall this would suggest a full or partial outsourcing had the majority of the Industry support. However, the larger companies might say that because it would limit the competition to the larger consortia players (who were overly represented at the Questionnaire and Industry Day. It still showed that there was a wide range of views from the Industry and that there seemed adequate Industry interest in most of the options.

D21 A supplementary question on the Industry Day concerning if a Term contract and a design and build contract were 2 lots what value of work order should be the divide:

£0.5M	15%
£1M	24%
£1.5M	18%
£2.0M	15%
Higher	28%

D22 This would suggest that perhaps the best way of limiting a Term Contract is to state it would be exclusive for works orders up to £1.0M but could be used for orders of any value in excess of £1.0M but that the Council reserves the right to put these out to contract separately at its sole discretion.

**D23 Question 3 - What do you think are the greatest benefits to the Council in procuring these services externally?**

New systems of working	25%
Wider staff resource	14%
Lower price overall	22%
Higher quality of service	22%
Able to concentrate on strategic issues	12%
Don't know	1%
None	4%

D24 These benefits are likely to be similar on Term or full outsource although there could be slightly greater benefits with a total outsource.

**D25 Question 4 - What do you think are the greatest risks to the Council of procuring all of these services externally?**

Loss of key staff	12%
Loss of local knowledge	27%
Higher prices or costs overall	2%
Lower quality	8%
Service delivery failure	21%
Supplier Bankruptcy	11%
Don't know	5%
Other	14%

D26 These risks are probably highest on a total outsource as there would be a single supplier and a very small Client team.

D27 One supplier went as far as providing a risk matrix based on their assumptions of the objectives for the contract might include:

- Price: revenue cost will have a huge impact
- Resilience: commercial and technical
- Investment: being able to get investment into the service; spend to save
- Ideas/improvement: someone who supports improvements and innovation
- Risk: in terms of compliance with standards, specification, health and safety
- ECI: value engineering, cost reduction
- Local: use of local firms; supporting the local economy
- Political awareness: an understanding of the impact of local politics
- Influence of Members: being able to keep control.

D28 Although not agreeing that these are necessarily the objectives of the Council, on that basis their view was that the table below scores each of those objectives (out of five) against the options:

	Price	Resilience	Investment	Innovation	Risk	ECI	Local	Political awareness	Member influence	Total
<b>Full outsource</b>	4	5	5	5	5	5	3	4	3	39
<b>Outsource highways only</b>	4	5	5	5	5	5	4	4	4	41
<b>Outsource transport only</b>	3	5	3	5	5	5	4	4	2	36
<b>Top-up consultancy</b>	2	4	1	2	4	1	3	2	4	23
<b>Term contract</b>	4	4	2	3	4	1	3	3	4	28
<b>Design and build for large contracts</b>	4	4	3	4	4	5	3	2	3	32
<b>Lots but with discounts for multiple awards</b>	5	3	3	3	4	3	3	3	4	31

- D29 Whilst there is, inevitably, a degree of subjectivity in the scoring, it does, nevertheless indicate well their view of the ideas. Essentially, in their view the larger package models provide more scope for investment and a higher level of experience and knowledge outside the confines of a particular technical or operational field. They believe this is important in the key areas of understanding the political interface and needs of the local community. They also believe it provides the capacity to drive innovation and provide resilience in terms of key individuals.
- D30 They acknowledge that the risks of this approach are around local delivery and the support of local SMEs in the industry.
- D31 What that analysis shows is that even the Industry recognises that to get the cheapest price, Lots are probably the best solution. Early Contractor Involvement can (and almost certainly should) be built into any of the options and so would not necessarily be as they have indicated. Likewise risk is not all about compliance with standards, specification, health and safety as they suggest. There are many risks of putting all the work out to one supplier that are not reflected. The problem with a matrix simply adding up the different scores is that it does not reflect the weighting necessary on price. If all the other issues are considered to be quality based then the above matrix gives an 11:89 ratio of price to quality, which is not appropriate at this juncture in the process.
- D32 A more structured approach would be to weight price equally to all the others combined and this would give the following:

	Price (50%)	Resilience	Investment	Innovation	Risk	ECI	Local	Political awareness	Member influence	Total
<b>Full outsource</b>	32	5	5	5	5	5	3	4	3	67
<b>Outsource highways only</b>	32	5	5	5	5	5	4	4	4	69
<b>Outsource transport only</b>	24	5	3	5	5	5	4	4	2	57
<b>Top-up consultancy</b>	16	4	1	2	4	1	3	2	4	39
<b>Term contract</b>	32	4	2	3	4	1	3	3	4	56
<b>Design and build for large contracts</b>	32	4	3	4	4	5	3	2	3	60
<b>Lots but with discounts for multiple awards</b>	40	3	3	3	4	3	3	3	4	66

- D33 This would indicate even the Industry recognises that there is little difference between using Full outsourcing, partial outsourcing or Lots to achieve the best outcome. The score on risk and early contractor involvement alone could

easily be said to be equal on all three and that would place Lots as equal to partial outsourcing.

- D34 This is therefore not conclusive and the OBC range of options compares these two main options of Full or Partial Outsourcing against a number of Lot based options.
- D35 Although there were several other questions on the Questionnaire and at the Industry Day they were more about length of contract, inclusion of different items like depots, and other detailed areas that will help final contract design.

## Appendix D1 Industry response to financial savings.

The Industry clearly expects the action of procurement to drive out savings and in order to identify the potential for this an additional questionnaire was sent out following the Industry Day to try to see what level of savings could be achieved.

Although few were prepared to be specific, one supplier suggested the following percentage savings might be achievable:

Year	1	2	3	4	5	6	7	8	9	10
Strategic Partnership	15%	3%	3%	2%	2%	2%	2%	2%	2%	1%
Term	12%	1%	1%	1%	1%	1%	1%	1%	1%	1%

Another said they could demonstrate average saving over the life of the contract:

- Working within a Strategic Partnership with 10 year agreement of 6.53%.
- Working within a 10 year Term Maintenance Contract 10.16%.

The savings profile they suggested would look as follows:

	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6	Yr. 7	Yr. 8	Yr. 9	YR10
10 Year Strategic Partnership	6.43%	16.64%	12.12%	9.15%	3.81%	3.7%	3.59%	3.48%	3.38%	3.28%
10 year Term Maintenance Contract	8.57%	18.72%	17.51%	10.46%	9.52%	8.63%	8.37%	8.13%	7.89%	7.66%

They state that both types of procurement options demonstrate that typically most of the gains can be achieved in the first couple of years of operating the contracts, with one off service improvements, and a more general longer term efficiency profile thereafter.

Interestingly the second supplier suggests lifetime savings significantly greater on a Term Contract and the first Supplier the reverse.

Although several different price fluctuation indices were discussed ranging from RPI, RPIx and Baxter's the same two suppliers suggested the new BCIS Term Maintenance Price Increase Formula and the HTMA fluctuation mechanism which is believed to be referring to the same new indices. (These are the Price Adjustment Formulae Indices (Highway Maintenance) 2010.) These have been developed specifically for Highways Term Maintenance contracts and presumably have the confidence of the main Suppliers to enable them to bid competitively. There is obviously uncertainty to how these will vary in the future and therefore there is an unknown risk to the Council of these indices rising above the general rate of inflation reflected by RPIx or similar.

## Appendix E OBC Initial Ideas and further option consideration

Following the initial desk-top review and the ideas considered in the Questionnaire and the Industry Day a further review of ideas has been considered. The Do Nothing model has been discounted and the Business as Usual model has been used as a base for comparison purposes.

However, many of the other options could be considered alongside keeping an in-house provision of any part of the service where best value would be provided.

Option a	Full or Partial Outsourcing
Option b	Top up Consultancy Service for Highways & Transport
Option c	Term Contract to any value but not exclusive over £1.0M
Option d	Design & Build for projects over £1.0M
Option e	Selection of B-D as Lots
Option f	Phased approach starting with Term Contract
Option g	Strategic Partner with Term Contract and Top-up for design and with option to outsource over time if desired.
Option h	Joint Approach with Peterborough Council for either Term Maintenance Contract and Consultancy Services or a combined contract. Possibly being a pilot using HMEP toolkit and Contracts or using Midland Highways Alliance.

### Option a Full or Partial Outsourcing

This option was considered to be too broad and needed limiting in scope to enable clarity of tendering to reduce the need for a Competitive Dialogue. The Partial Outsourcing of a clearer Highways Term and Consultancy Strategic Partnership was considered the best way to take this option forward and is considered further in option D in [Appendix F](#).

### Option b Top up Consultancy Service for Highways & Transport

Already covered by Midlands Highways Alliance Framework. Already used for this purpose and is part of the Business as Usual Option considered further in option A in [Appendix F](#).

The MHA framework is said to be delivering 9% saving already so this seems a sensible (guaranteed way) of continuing to make savings and is included in options A and B in [Appendix F](#).

### Option c Term Contract to any value but not exclusive over £1.0M

Easy to use standard form of NEC Term Contract. Industry well aware of the form of contract which will reduce costs and risks. Options for relating to other NEC 3 contracts. It would work best with early contractor involvement in any design work so as to ensure best solution designed in. Could lead to highest level of savings as some of the smaller contractors likely to bid for this, unlikely to be many savings in Client costs but could be significant savings in contract costs. Would require full Specification and detailed SoR and Evaluation but should still be deliverable by August 2013 using Restricted Tender procedure. This features in options B and C in [Appendix E](#).

### Option d Design & Build for projects over £1.0M



Useful for very large projects where not restricted by funding options. Currently the design and build parts can be separately procured via two separate frameworks of the Midlands Highways Alliance and is the way considered best under the Business as usual option as in both cases the MHA have found a 9% savings on other procurement methods. Option A and B below both would continue the use of these framework agreements .

**Option e Selection of b, c and d as Lots**

This could be a combination of some or all of options b, c and d above or could be a series of Lots for Option c allowing smaller SMEs to tender for specific parts. (e.g. Street Lighting, or Traffic Signal Maintenance etc.) Could lead to highest level of savings as smaller contractors likely to bid for this, however if there are too many suppliers there would be no savings in Client costs but could be significant savings in contract costs.

**Option f Phased approach starting with Term Contract**

Due to risks associated with full outsourcing at this stage, with Council not even currently having more conventional service delivery models (e.g. Term Contracts) there could be a phased approach with various co-terminus procurements being arranged with the option for extensions. This could mean a full outsourcing could be then considered after the end of the existing Mouchel Contract. Savings would be seen early by prioritising Term Contract and then outsourcing other parts. This is similar to the next option (Option g).

**Option g Strategic Partner with Term Contract and Top-up for design and with option to outsource over time if desired.**

Due to risks associated with full outsourcing at this stage, with the Council not currently having more conventional service delivery models (e.g. Term Contracts) it would be possible to fully outsource the Operational aspects in a Term Contract arrangement but allowing a Strategic Partnership approach using NEC 3 contracts. This could lead to immediate savings at low risk but allowing for further areas of outsourcing to be included as Mouchel contract ends and if seen to be beneficial when staff leave or as a planned step change to outsource the design side. Savings would be seen early by prioritising Term Contract but on-going savings, if achievable could be included by further outsourcing later in the contract. This option is considered in more detail in the Option C in [Appendix F](#) as the amount of Consultancy top-up could be minimal at first and could increase over time to the equivalent of a full outsourcing.

**Option h Joint Approach with another Council for either Term Maintenance Contract and Consultancy Services or a combined contract.**

Possibly being a pilot using HMEP toolkit and Contracts which would put Milton Keynes Council on the forefront of innovative solutions in collaborative approach and could gain significant financial advantage and reduced cost of tendering. It could also lead to an Option g outcome. One local Council (Peterborough) are carrying out a similar procurement process in the same timescales. They are looking at a full outsource Consultancy service and Milton Keynes Council could use this as a top-up until such stage as a full outsource is considered appropriate and then implement.

It has become clear that any solution needs the Supplier to be involved in a partnership approach with Milton Keynes Council. Any Term Contract solution must therefore include Early Contractor Involvement in the design process. If possible co-location of staff seems very important and if not possible then a staffed supplier desk

at the Client offices and a staffed Client desk at the Suppliers offices would be essential.

After discussion of the above options it was decided to analyse 3 options in more detail together with the Business as Usual Option. Each option is considered separately in terms of likely benefits and risks, the issues concerning TUPE and other potential liabilities including redundancy costs. These are given in [Appendix F](#).

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**Appendix F Detailed analysis of the Final Four Options**

Three options are analysed in detail together with the Business as Usual Option. Each option is considered separately in terms of likely benefits and risks, the issues concerning TUPE and other potential liabilities including redundancy costs.

**Option A Business as usual**

The current business model has many strengths and is argued by some to give the best option for small and medium size enterprises (SMEs) – particularly local ones to be able to deliver services at good value. A number of Council's are bringing work back in-house with this type of mixed economy of SMEs supporting an in-house service. In terms of maintaining the local economy and of keeping a distinctive local knowledge this is ideal. However, the weaknesses of the current model were highlighted in the previous review and although it would be possible to recruit the needed extra skills it is not necessarily the easiest or best option.

**Option B Partnership for Term Contract**

The current plethora of contractual arrangements, although probably being the best option for small and medium size enterprises (SMEs) does not normally achieve the value for money of a larger, longer contract often referred to as a Term Contract or Term Maintenance Contract (TMC). The TMC can be for the whole of the works or for Highways and Lighting as two separate Lots. Under this option either would be possible. In some places further division of lots for smaller patching work and larger schemes have been used, but this has been found to rarely give better value and leads to too many interfaces between Contractors. The view of officers is that the risks with the interface between even a Highways and a Street Lighting Contractor would make a single Term Contract the better option. The fact that a larger sized business would be likely to win this type of work would enable wider experience to be brought into the Council including new technology and other innovations at reasonable cost, and likely to provide better control and level of service provision probably at a cheaper price. This would be very straightforward to procure and would be readily understood by the market so a Restricted Tender procedure using the standard form of NEC Term Contract would be possible, and would almost certainly be able to be delivered by October 2013, subject to the work on producing the documents being started prior to the final decision of Cabinet.

**Option C Partnership for Term Contract and Top-up Consultancy**

Due to risks associated with full outsourcing at this stage, with Council not currently having more conventional service delivery models (e.g. Term Contracts) it would be possible to fully outsource the Operational aspects in a Term Contract arrangement but allowing a Strategic Partnership approach using NEC 3 contracts. This could lead to immediate savings at low risk but allowing for further areas of outsourcing to be included as the Mouchel contract ends and if seen to be beneficial when staff leave or as a planned step change to outsource the design side. Savings would be seen early by prioritising Term Contract but on-going savings, if achievable could be included by further outsourcing later in the contract. This would be fairly straightforward to procure and would be readily understood by the market so a Restricted Tender procedure using the standard form of NEC Term Contract with additional clauses potentially from other NEC 3 contracts. It would work best with early contractor involvement (ECI) in any design work so as to ensure best solution designed in. Would probably still be able to be delivered by

October 2013, subject to the work on producing the documents being started prior to the final decision of Cabinet.

**Option D Strategic Partnership of Term Contract and Consultancy**

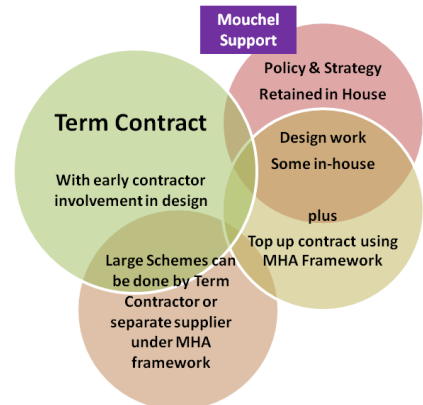
This is still well known by the Industry and for the scope restricted to Highways (including Street Lighting and Structures) is an arrangement that has been used by the Highways Agency over the last 10 years or more and by many Council's since. It is interesting that a number of Council's have veered away from this recently although most of that seems to be due to financial control and form of actual pricing mechanisms. If this option were agreed it would probably be best to use a Schedule of Rates (SoR) pricing mechanism as is normal on Term Maintenance Contracts rather than Target Price or Open Book Accountancy methods where Councils have sometimes lost financial control. Would require full Specification and detailed SoR and Evaluation but might still be deliverable by October 2013 using Restricted Tender procedure.

<b>Option A</b>	<b>Business as usual</b>						
<p><b>Comments:</b>                  This is not a “Do Nothing” option but rather a continuation “as is” with continuous review and optimisation using the present review processes and meeting the Council’s changing requirements.                  The current business model has many strengths and is argued by some to give the best option for small and medium size enterprises (SMEs) – particularly local ones to be able to deliver services at good value. A number of Councils are bringing work back in-house with this type of mixed economy of SMEs supporting an in-house service. In terms of maintaining the local economy and of keeping a distinctive local knowledge this is ideal. However, the weaknesses of the current model were highlighted in the previous review and although it would be possible to recruit the needed extra skills it is not necessarily the easiest or best option. The consultancy work will continue to be topped up using the MHA and that is seen to be giving a 9% saving. By continuing to test the market locally and by combining contracts where appropriate in the future a further 5% saving is estimated on the work covered by Neighbourhood Services. With this option there is no loss of income.</p>							
<p><b>Financial Data</b>                  See separate details in Appendices H and I</p>							
<p><b>Deliverability</b>                  Currently being delivered. If this option is adopted it is strongly recommended that a review of structures and of training needs is urgently carried out. Possible use of Lean techniques (used by major contractors) to ensure systems and processes deliver savings.</p>							
<p><b>Staffing Implications:</b></p> <table border="1" data-bbox="199 1243 1460 1344"> <thead> <tr> <th data-bbox="199 1243 606 1310">Potential Pension Costs</th> <th data-bbox="606 1243 1061 1310">Potential TUPE liability</th> <th data-bbox="1061 1243 1460 1310">Other Potential Costs</th> </tr> </thead> <tbody> <tr> <td data-bbox="199 1310 606 1344">No change to present costs</td> <td data-bbox="606 1310 1061 1344">None</td> <td data-bbox="1061 1310 1460 1344">None</td> </tr> </tbody> </table>		Potential Pension Costs	Potential TUPE liability	Other Potential Costs	No change to present costs	None	None
Potential Pension Costs	Potential TUPE liability	Other Potential Costs					
No change to present costs	None	None					
<p><b>Legal Impacts:</b> None other than the Contractual risks below.</p>							
<p><b>Contractual Risks:</b> The danger with so many contracts is that they are not always procured in accordance with European Regulations due to the lack of clarity about values and lengths of contracts.</p>							
<p><b>Risk summary</b></p> <table border="1" data-bbox="199 1534 1460 1680"> <thead> <tr> <th data-bbox="199 1534 798 1568">Risks</th> <th data-bbox="798 1534 1460 1568">Mitigations/Benefits</th> </tr> </thead> <tbody> <tr> <td data-bbox="199 1568 798 1680">The business as usual option has no risks in terms of change, but gives no opportunity for step change.</td> <td data-bbox="798 1568 1460 1680">Could carry out an internal Lean review (now used by the Highways Agency) which is a systems thinking approach. This could be done with any of the options, or required under the contract.</td> </tr> </tbody> </table>		Risks	Mitigations/Benefits	The business as usual option has no risks in terms of change, but gives no opportunity for step change.	Could carry out an internal Lean review (now used by the Highways Agency) which is a systems thinking approach. This could be done with any of the options, or required under the contract.		
Risks	Mitigations/Benefits						
The business as usual option has no risks in terms of change, but gives no opportunity for step change.	Could carry out an internal Lean review (now used by the Highways Agency) which is a systems thinking approach. This could be done with any of the options, or required under the contract.						

**Option B A single Partnership Contract for a set period (known as Term Contract) to any value (but not exclusive over £1.0M) plus use of MHA for large schemes and the MHA for Consultancy top-up and Mouchel for certain skills shortages and support.**

**Comments:**

This option would remove the plethora of contractual arrangements (of almost a 'sub-contract' nature through the in-house provider). Although arguably being the best option for small and medium size enterprises (SMEs) it does not normally achieve the value for money of a larger, longer contract often referred to as a Term Contract or Term Maintenance Contract (TMC). The TMC can be for the whole of the works or for Highways and Lighting as two separate Lots. Under this option either would be possible. In some places further division of lots for smaller patching work and larger schemes have been used, but this has been found to rarely give better value and just leads to too many interfaces between Contractors. The view of officers is that the risks with the interface even between a Highways and a Street Lighting Contractor would make a single Term Contract the best option. The fact that a larger sized business would be likely to win this type of work would enable wider experience to be brought into the Council including new technology and other innovations at reasonable cost, and likely to provide better control and level of service provision probably at a cheaper price.



**Financial Data**

See separate details in Appendices H and I

**Deliverability**

This would be very straightforward to procure and would be readily understood by the market so a Restricted Tender procedure using the standard form of NEC Term Contract would be possible, and would almost certainly be able to be delivered by October 2013, subject to the work on producing the documents being started prior to the final decision of Cabinet. Tender evaluation criteria could be developed that encouraged use of SME's to boost the local economy. If this option is adopted it is strongly recommended that a review of structures and of training needs is urgently carried out of remaining in-house staff. Possible use of Lean techniques (used by major contractors) to ensure systems and processes deliver savings.

**Staffing Implications:**

Potential Pension Costs	Potential TUPE liability	Other Potential Costs
Contractor would need to allow for these in bid.	The current workforce and most of the current Contractors' staff would probably be eligible for TUPE transfer to the new supplier. The cost of this would be covered by the bidder.	There is no proposal to alter the arrangements with Mouchel in this option so no risk of challenge or costs incurred. However, there might be an effect because the overheads would not reduce despite the transfer of work.

**Legal Impacts**

**Contractual Impacts**

Would need careful scrutiny of current contracts and their end dates and opt out options/cost. It has been assumed that the cost of opting out of current Mouchel contract early would be prohibitive and so is not included but could be as option at end of current contract.

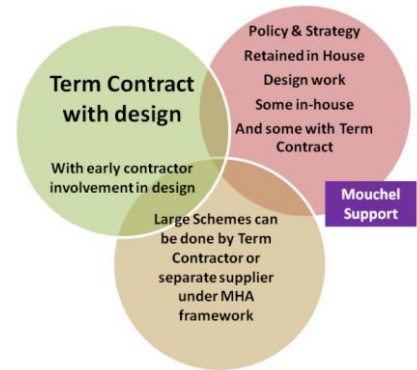
**Risk summary**

Risks	Mitigations/Benefits
Low risk - proven method can include more than one provider (e.g. servicing specific geographical areas of the Borough) if desired. Could run alongside in-house provision. And MHA is providing a framework for the Top-up work.	Would need Contract Management but by using standard NEC Term contract (or similar), subject to a skills audit of the client, staff can be trained up to the required standard.

**Option C Partnership with Term Contract to any value (but not exclusive over £1.0M) but including Consultancy top-up. Still use Mouchel for certain skills shortages and support until end of existing contractual arrangement.**

**Comments**

This option is very similar to B but instead of using the MHA to Top-up this has a single supplier/partner for both the TMC and the Top-up consultancy work. This option will reduce risks associated with full outsourcing (see Option D), but retains the option to outsource further, at a later stage. This would fully outsource the Operational aspects in a Term Contract arrangement but would allow a Strategic Partnership approach using NEC 3 contracts. This could lead to immediate savings at low risk but allowing for further areas of outsourcing to be included as the Mouchel contract ends and if seen to be beneficial when staff leave or as a planned step change to outsource the design side.



**Financial Data**

See separate details in Appendices H and I

**Deliverability**

This would be fairly straightforward to procure and would be readily understood by the market so a Restricted Tender procedure using the standard form of NEC Term Contract with additional clauses potentially from other NEC 3 contracts. It would work best with early contractor involvement (ECI) in any design work so as to ensure best solution designed in. Would probably still be able to be delivered by October 2013, subject to the work on producing the documents being started prior to the final decision of Cabinet. Tender evaluation criteria could be developed that encouraged use of SME's to boost the local economy. If this option is adopted it is strongly recommended that a review of structures and of training needs is urgently carried out of remaining in-house staff. Possible use of Lean techniques (used by major contractors) to ensure systems and processes deliver savings.

**Staffing Implications:**

Potential Pension Costs	Potential TUPE liability	Other Potential Costs
Contractor would need to allow for these in bid.	The current workforce and most of the current Contractors' staff would probably be eligible for TUPE transfer to the new supplier. The cost of this would be covered by the bidder.	There is no proposal to alter the arrangements with Mouchel in this option so no risk of challenge or costs incurred. However, once that contract ends people would TUPE back to the Council and could then be outsourced into this contract.

**Legal Impacts**

**Contractual Impacts**

Would need careful scrutiny of current contracts and their end dates and opt out options/cost. It has been assumed that the cost of opting out of current Mouchel contract early would be prohibitive and so is not included but could be as option at end of current contract.

**Risk summary**

Risks	Mitigations/Benefits
Medium Risk as Contractually "all eggs in one basket" except for in-house cover for the Consultancy.	Would need Contract Management but by using standard NEC Term contract (or similar), subject to a skills audit of the client, staff can be trained up to the required standard.



<p><b>Option D Strategic Partnership of Term Contract and Consultancy</b></p>							
<p><b>Comments</b>                  This is well known by the Industry where the scope restricted to Highways (including Street Lighting and Structures) and is an arrangement that has been used by the Highways Agency over the last 10 years or more and by many Councils since. It is interesting that a number of Councils have veered away from this recently although most of that seems to be due to financial control and form of actual pricing mechanisms. If this option were agreed it would probably be best to use a Schedule of Rates (SoR) pricing mechanism as is normal on Term Maintenance Contracts rather than Target Price or Open Book Accountancy methods where Councils' have sometimes lost financial control.</p>							
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Often considered High Risk as "all eggs in one basket" as no in-house cover and can lead to lack of control if Management of Contract not adequate.	Could solve all perceived problems if properly controlled – would need a skills audit and training of thin Client to ensure proper Management of Contract.						



## Appendix G Background Information for Preferred option

The Highways Delivery options are changing in many places at this time. The traditional contracts have served well but in the current economic climate people are looking at new ways of pulling out the greatest savings whilst still maintaining an acceptable level of control. The full or partial outsourcing options are a large step change for Milton Keynes Council in the light of the current situation of about 50 different contractual and delivery arrangements.

### Highways Maintenance Efficiency Programme

The Highways Maintenance Efficiency Programme (HMEP) is a sector-led transformation programme to maximise returns from highways investment and delivery efficiency, sponsored by DfT. Funding of £6m over 2011-2013, programme runs to 2018

Links with Government Construction Strategy and Infrastructure UK Review

Consistent with 'localism' agenda - providing the tools and opportunities - not central direction

Partnership working between public and private sectors

Building on good practice in the sector

Programme team made up of Local Authority employed staff

Category	Elements
Collaboration	<ul style="list-style-type: none"> <li>• Collaborative Alliances Toolkit</li> <li>• Supply Chain Review</li> <li>• Shared Services Arrangements Toolkit</li> </ul>
Procurement , contracting and standardisation	<ul style="list-style-type: none"> <li>• Procurement Route Choice Toolkit</li> <li>• Standard Form of Contract</li> <li>• Standard Highway Maintenance Specification and Standard Details</li> </ul>
Asset Management	<ul style="list-style-type: none"> <li>• Asset Management Lifecycle Planning Toolkit</li> <li>• Deterioration Model for Bituminous Surfacing</li> <li>• Guidance on how to Manage and Maintain Highway Drainage Assets Review / Update on Asset Management Advice within CSS Framework and Other Publications since 2005</li> <li>• Pothole Review as a Response to Recent Severe Winter Weather</li> <li>• Asset Management Practitioner Training</li> </ul>
Benchmarking and performance	<ul style="list-style-type: none"> <li>• Comparative Performance Data Identification and Dissemination</li> <li>• Cost / Quality / Customer Perception Measures of Value for Money</li> </ul>

Why Collaborate? Highways Maintenance Efficiency Programme

- Aggregation produces economies of scale -lower prices
- Reduced procurement costs - undertaken once rather than multiple times
- Continuity of business enhances performance and innovation
- Supply chain integration
- Adoption of best practice
- Shared skills and training opportunities
- Benchmarking with standard KPIs
- Opportunities for shared services

The Key Components of the Highways Maintenance Efficiency Programme

Collaborative Toolkit

- Current best practice and drivers
- Developing the business case
- Setting up an alliance
- Operating an alliance
- Promoting the benefits
- Support for implementing the toolkit

The HMEP is working on several briefs all with a time scale for completion of the next few months. Three are particularly relevant to Milton Keynes Council:

**Brief 1: A Standard Form of Contract for Highway Maintenance Services comprising:**

- A standard OJEU notice
- A standard Pre-qualification Questionnaire
- A standard Instructions for Tender
- A Standard Form of Contract

This could save time and consultancy costs in document preparation.

**Brief 2: Standard Specification and Standard Details**

Key areas covered by the Specification:

- Bituminous Surfacing
- Kerbing & Paved Surfaces
- Traffic Signs and Road Markings
- Street Lighting
- Structural Concrete
- Winter Maintenance

This could also save time for staff and consultancy costs in document preparation.

It is also likely that Contractors will want to start to use these standardised documents and these could help Milton Keynes Council gain even more competitive prices

**Brief 5: A Procurement Route Choices Toolkit**

Aimed at assisting Local Highway Authority managers to:

- To guide them through the drivers that are most important to their authority
- Inform them of the procurement options available
- The advantages and disadvantages of each option
- Estimated savings from these 5 work packages £170m
- Release planned over the next 6 months
- Early enablers already identified
- Underpinning support packages to follow

Although late in the day for Milton Keynes Council it is possible we could be included in the early enablers.

## Midland Highways Alliance

The Midland Highways Alliance (MHA) was formed in 2007 and comprises 18 local highway authorities including Milton Keynes) with £12m worth of tracked savings to date.

The key areas are:

- Medium schemes framework
- Framework for consultancy services
- Commodities contracts - salt, street lighting
- Harmonised specification
- A skills academy
- A sustainable funding regime

At the moment the MHA have two major frameworks in place, a medium schemes framework with 4 contractors for capital works up to £12million, a professional services framework for the provision of design services using URS. These are both for a period of 3 years with extensions of an additional year. Milton Keynes Council is already using both of these frameworks. The Medium Schemes Framework was set up in 2010 and generates approximately 9% savings, and the Professional Services Framework was set up in 2011 and should generate a similar saving, based on the previous framework.

In addition there are various supply frameworks for salt, lighting columns etc. via ESPO which are available to all members of the MHA.

In development is a standard Term maintenance Contract which is currently being piloted by Nottinghamshire and the MHA are currently looking for the next tranche of authorities to use it, probably in the summer. Peterborough and Rutland are both looking at this as a procurement route and it may be possible to join them in a combined tendering procedure, with a combined OJEU notice, but all appear to be on slightly different timetables so it may not be any great advantage.

The main benefits are that it provides a set of documents which Milton Keynes Council can adapt to make bespoke to local circumstances.

Nottingham on their pilot contract, using the MHA, from a standing start in January 2012 hope to have a contractor appointed by November, and will be operational by April. The MHA has helped facilitate them using the contract and are making use of the lessons learnt to develop the next version of the documents which Milton Keynes Council would use.

The MHA were initially key players on the project board(s) at Nottingham but as the Nottingham team grew in knowledge and confidence the need for MHA help has diminished.

The consultant Nottingham have used (Ian Stewart of CWC) seems to be the in depth expert on the documents and there would be merit in retaining him to do an initial workshop to introduce the MHA to the project team then lead them through the key early stages of tailoring it to the local needs and identifying the inputs that are needed to undertake and gather information on.

There is a need to ensure that there is strong internal buy in to the use of the MHA Term Contract and those issues with its use do not become show stoppers at an

advanced stage of the tender process from stakeholders not being on board. The first session through the MHA and or Ian Stewart would provide such an opportunity.

The contract aim backed up by the MHA is for a totally collaborative approach. However the key to success will be an active intelligent client and that the client team be sustained through the contract.

Development of the client team will be a key activity during mobilisation. There is clearly a shortage of the skill sets that will be required to manage the contract within Milton Keynes Council within the current staff, equally there will be a need to restructure the remaining client side functions to simplify lines of responsibility. The MHA have offered through the training academy to facilitate this.

There would be on-going benefits through the MHA working groups in that any problems that occur on one contract can be shared and either find a mutual solution or at least will give an early warning.

There is clearly the potential through the MHA Term Contract as the Council grows in knowledge and confidence to move from a schedule of rates type contract to using target cost either in whole or in part.

## Appendix H Costing of Final Options

The original desk top study provided detailed financial modelling based on 5 scenarios, the assumptions made needed re-examination because the savings were really not due to method of procurement but down to other decisions and these have been excluded in the following modelling of the options but they are identified below as these contribute the greatest amount of the planned savings on revenue budgets.

The reason for the income to increase considerably was assumed to be due to increased efficiencies of parking enforcement and introduction of street works permit system. These have been excluded from the models.

As the Mouchel contract and other overheads are deemed as uncontrollable the only savings are in controllable costs and on income.

The four options are tabulated on the following pages. But Option B and Option C are identical as the assumptions are the same.

### Option A

Option A assumes Business as Usual. The costs of this option have been taken from the original 2012/13 budget for the whole of Highways & Transportation, plus the budgets relevant to the business case that are currently held within Neighbourhood Services. All budgets are excluding non- controllable overheads.

Option A assumes that all works will continue to be delivered as currently planned in 2012/13. This creates the base position for comparison of other options

By introducing a Term Contractor/ Strategic Partnership for all works it would remove the ability for the current in house provider to achieve a 'profit' over and above costs by charging additional amounts to other internal departments. In revenue this would have a net nil effect as this could be offset by reducing the cost of the works on the client side, however in relation to capital works this does create a budget pressure. This loss of contribution to MKC revenue has been shown on in the model as a 'cost' to revenue. Further options can be explored separately to this model on how this 'cost' could be managed in the MTFP, the impact would be similar in all options

**Option A**

	<b>Current 2013</b>	<b>Revised 2014</b>	<b>Revised 2015</b>	<b>Revised 2016</b>
Direct Employee Costs	2,839,454	2,839,454	2,839,454	2,839,454
Agency Costs	50,000	50,000	50,000	50,000
Indirect Employee Costs	10,221	10,221	10,221	10,221
<b>Employees</b>	<b>2,899,675</b>	<b>2,899,675</b>	<b>2,899,675</b>	<b>2,899,675</b>
On-going Costs	2,158,703	2,158,703	2,158,703	2,158,703
Other Premises Costs	3,696,300	3,696,300	3,696,300	3,696,300
<b>Premises</b>	<b>5,855,003</b>	<b>5,855,003</b>	<b>5,855,003</b>	<b>5,855,003</b>
Payroll Costs	81,842	81,842	81,842	81,842
Other Transport Related	7,055,195	7,055,195	7,055,195	7,055,195
<b>Transport</b>	<b>7,137,037</b>	<b>7,137,037</b>	<b>7,137,037</b>	<b>7,137,037</b>
Leasing	11,592	11,592	11,592	11,592
Grants	-	-	-	-
Other Supplies & Services	4,517,570	4,517,570	4,517,570	4,517,570
New contract cost	-	-	-	-
<b>Supplies &amp; Services</b>	<b>4,529,162</b>	<b>4,529,162</b>	<b>4,529,162</b>	<b>4,529,162</b>
Other internal trading	595,470	(121,380)	(121,380)	(121,380)
Landscape	228,454	228,454	228,454	228,454
Fleet	1,132,327	1,132,327	1,132,327	1,132,327
Highways	(4,597,359)	(3,880,509)	(3,880,509)	(3,880,509)
Capital fees	(549,999)	(549,999)	(549,999)	(549,999)
Stores	529,013	529,013	529,013	529,013
<b>Internal recharges</b>	<b>(2,662,094)</b>	<b>(2,662,094)</b>	<b>(2,662,094)</b>	<b>(2,662,094)</b>
<b>Capital charges</b>	<b>8,741,830</b>	<b>8,741,830</b>	<b>8,741,830</b>	<b>8,741,830</b>
<b>Gross total cost</b>	<b>26,500,613</b>	<b>26,500,613</b>	<b>26,500,613</b>	<b>26,500,613</b>
Fees & Charges	(11,049,781)	(11,049,781)	(11,049,781)	(11,049,781)
Other income	(35,000)	(35,000)	(35,000)	(35,000)
<b>Income</b>	<b>(11,084,781)</b>	<b>(11,084,781)</b>	<b>(11,084,781)</b>	<b>(11,084,781)</b>
<b>Total</b>	<b>15,415,832</b>	<b>15,415,832</b>	<b>15,415,832</b>	<b>15,415,832</b>

**Option B**

No costs have been provided for, for the implementation of this option

Option B adjusts the figures shown in option A to take into account all works for signals, street lighting, bridges and highways maintenance to be delivered from a single contract - 'term contractor' rather than multiple providers. The figures assume that by using a single term contract 11.08% savings could be achieved. (This assumption has not been proven and is only evidenced by information put forward at the industry day). The model assumes that the term contractor would be in place from the 1/10/13, and therefore only a part year saving is shown in 2013/14.

Assumptions are made that future capital works are in line with the current Local Transport Plan (LTP) values, without any further investment being available. A separate exercise is currently being completed to assess the value of revenue savings that could be generated through a large scale investment in the highway network. These figures are not included in any option as it is viewed that these savings are common to all options.

The model assumes that the split of revenue and capital works is in line with existing budgets

By introducing a term contractor it would remove the ability for the current in house provider to complete any external works, therefore this work would also transfer to the contractor, reducing the contract price

The added value to capital schemes assumes savings on the works element of the current LTP funding. This assumes that 75% of the scheme costs relates to works, and therefore possible to achieve 11.08% saving against current cost. The added value also takes into the account the mark-up/ 'profit' element on capital projects that is charged through current arrangements

**Option B**

	Current 2013	Revised 2014	Revised 2015	Revised 2016
Direct Employee Costs	2,839,454	2,444,947	2,050,440	2,050,440
Agency Costs	50,000	25,000	-	-
Indirect Employee Costs	10,221	10,221	10,221	10,221
<b>Employees</b>	<b>2,899,675</b>	<b>2,480,168</b>	<b>2,060,661</b>	<b>2,060,661</b>
On-going Costs	2,158,703	2,158,703	2,158,703	2,158,703
Other Premises Costs	3,696,300	1,888,575	80,850	80,850
<b>Premises</b>	<b>5,855,003</b>	<b>4,047,278</b>	<b>2,239,553</b>	<b>2,239,553</b>
Payroll Costs	81,842	77,607	73,371	73,371
Other Transport Related	7,055,195	7,049,195	7,043,195	7,043,195
<b>Transport</b>	<b>7,137,037</b>	<b>7,126,802</b>	<b>7,116,566</b>	<b>7,116,566</b>
Leasing	11,592	11,592	11,592	11,592
Grants	-	-	-	-
Other Supplies & Services	4,517,570	3,828,770	3,139,970	3,139,970
New contract cost	-	1,720,764	3,441,529	3,441,529
<b>Supplies &amp; Services</b>	<b>4,529,162</b>	<b>5,561,126</b>	<b>6,593,091</b>	<b>6,593,091</b>
Other internal trading	595,470	(121,380)	(121,380)	(121,380)
Landscape	228,454	210,454	192,454	192,454
Fleet	1,132,327	584,189	36,050	36,050
Highways	(4,597,359)	(2,288,834)	(697,159)	(697,159)
Capital fees	(549,999)	(549,999)	(549,999)	(549,999)
Stores	529,013	264,557	100	100
<b>Internal recharges</b>	<b>(2,662,094)</b>	<b>(1,901,014)</b>	<b>(1,139,934)</b>	<b>(1,139,934)</b>
<b>Capital charges</b>	<b>8,741,830</b>	<b>8,741,830</b>	<b>8,741,830</b>	<b>8,741,830</b>
<b>Gross total cost</b>	<b>26,500,613</b>	<b>26,056,190</b>	<b>25,611,767</b>	<b>25,611,767</b>
Fees & Charges	(11,049,781)	(10,969,587)	(10,889,392)	(10,889,392)
Other income	(35,000)	(17,500)	-	-
<b>Income</b>	<b>(11,084,781)</b>	<b>(10,987,087)</b>	<b>(10,889,392)</b>	<b>(10,889,392)</b>
<b>Total</b>	<b>15,415,832</b>	<b>15,069,104</b>	<b>14,722,375</b>	<b>14,722,375</b>



**Option C**

Option C is very similar to Option B - no financial changes have been modelled as it is assumed that the MHA would procure design with comparable costs to a term contractor

**Option C**

	<b>Current 2013</b>	<b>Revised 2014</b>	<b>Revised 2015</b>	<b>Revised 2016</b>
Direct Employee Costs	2,839,454	2,444,947	2,050,440	2,050,440
Agency Costs	50,000	25,000	-	-
Indirect Employee Costs	10,221	10,221	10,221	10,221
<b>Employees</b>	<b>2,899,675</b>	<b>2,480,168</b>	<b>2,060,661</b>	<b>2,060,661</b>
On-going Costs	2,158,703	2,158,703	2,158,703	2,158,703
Other Premises Costs	3,696,300	1,888,575	80,850	80,850
<b>Premises</b>	<b>5,855,003</b>	<b>4,047,278</b>	<b>2,239,553</b>	<b>2,239,553</b>
Payroll Costs	81,842	77,607	73,371	73,371
Other Transport Related	7,055,195	7,049,195	7,043,195	7,043,195
<b>Transport</b>	<b>7,137,037</b>	<b>7,126,802</b>	<b>7,116,566</b>	<b>7,116,566</b>
Leasing	11,592	11,592	11,592	11,592
Grants	-	-	-	-
Other Supplies & Services	4,517,570	3,828,770	3,139,970	3,139,970
New contract cost	-	1,720,764	3,441,529	3,441,529
<b>Supplies &amp; Services</b>	<b>4,529,162</b>	<b>5,561,126</b>	<b>6,593,091</b>	<b>6,593,091</b>
Other internal trading	595,470	(121,380)	(121,380)	(121,380)
Landscape	228,454	210,454	192,454	192,454
Fleet	1,132,327	584,189	36,050	36,050
Highways	(4,597,359)	(2,288,834)	(697,159)	(697,159)
Capital fees	(549,999)	(549,999)	(549,999)	(549,999)
Stores	529,013	264,557	100	100
<b>Internal recharges</b>	<b>(2,662,094)</b>	<b>(1,901,014)</b>	<b>(1,139,934)</b>	<b>(1,139,934)</b>
<b>Capital charges</b>	<b>8,741,830</b>	<b>8,741,830</b>	<b>8,741,830</b>	<b>8,741,830</b>
<b>Gross total cost</b>	<b>26,500,613</b>	<b>26,056,190</b>	<b>25,611,767</b>	<b>25,611,767</b>
Fees & Charges	(11,049,781)	(10,969,587)	(10,889,392)	(10,889,392)
Other income	(35,000)	(17,500)	-	-
<b>Income</b>	<b>(11,084,781)</b>	<b>(10,987,087)</b>	<b>(10,889,392)</b>	<b>(10,889,392)</b>
<b>Total</b>	<b>15,415,832</b>	<b>15,069,104</b>	<b>14,722,375</b>	<b>14,722,375</b>

**Option D**

Option D assumes all works transferred in options B & C would also transfer for Option D. Assumptions are comparable to other options, with the exception of services in scope and % saving

In accordance with proposals put forward at the Industry day savings of 10.76% have been applied. All staff in relevant areas would transfer at cost, with savings of 10.76% applied to staff costs

Services to remain with MKC are Strategic Planning, Parking, Adoptions, NRSWA, and Passenger Transport. Assistant Director post costed into the Strategic Partnership

**Option D**

	<b>Current 2013</b>	<b>Revised 2014</b>	<b>Revised 2015</b>	<b>Revised 2016</b>
Direct Employee Costs	2,839,454	1,935,222	1,030,989	1,030,989
Agency Costs	50,000	25,000	-	-
Indirect Employee Costs	10,221	7,466	4,710	4,710
<b>Employees</b>	<b>2,899,675</b>	<b>1,967,687</b>	<b>1,035,699</b>	<b>1,035,699</b>
On-going Costs	2,158,703	2,158,703	2,158,703	2,158,703
Other Premises Costs	3,696,300	1,888,575	80,850	80,850
<b>Premises</b>	<b>5,855,003</b>	<b>4,047,278</b>	<b>2,239,553</b>	<b>2,239,553</b>
Payroll Costs	81,842	59,672	37,502	37,502
Other Transport Related	7,055,195	7,048,289	7,041,382	7,041,382
<b>Transport</b>	<b>7,137,037</b>	<b>7,107,961</b>	<b>7,078,884</b>	<b>7,078,884</b>
Leasing	11,592	11,592	11,592	11,592
Grants	-	-	-	-
Other Supplies & Services	4,517,570	3,713,867	2,910,164	2,910,164
New contract cost	-	2,304,618	4,609,296	4,609,296
<b>Supplies &amp; Services</b>	<b>4,529,162</b>	<b>6,030,077</b>	<b>7,531,052</b>	<b>7,531,052</b>
Other internal trading	595,470	(121,380)	(121,380)	(121,380)
Landscape	228,454	210,454	192,454	192,454
Fleet	1,132,327	584,189	36,050	36,050
Highways	(4,597,359)	(2,288,834)	(697,159)	(697,159)
Capital fees	(549,999)	(549,999)	(549,999)	(549,999)
Stores	529,013	264,557	100	100
<b>Internal recharges</b>	<b>(2,662,094)</b>	<b>(1,901,014)</b>	<b>(1,139,934)</b>	<b>(1,139,934)</b>
<b>Capital charges</b>	<b>8,741,830</b>	<b>8,741,830</b>	<b>8,741,830</b>	<b>8,741,830</b>
<b>Gross total cost</b>	<b>26,500,613</b>	<b>25,993,819</b>	<b>25,487,084</b>	<b>25,487,084</b>
Fees & Charges	(11,049,781)	(10,969,587)	(10,889,392)	(10,889,392)
Other income	(35,000)	(17,500)	-	-
<b>Income</b>	<b>(11,084,781)</b>	<b>(10,987,087)</b>	<b>(10,889,392)</b>	<b>(10,889,392)</b>
<b>Total</b>	<b>15,415,832</b>	<b>15,006,733</b>	<b>14,597,692</b>	<b>14,597,692</b>

## Service Costs

	2013/14				2014/15				2015/16			
	Option A	Option B	Option C	Option D	Option A	Option B	Option C	Option D	Option A	Option B	Option C	Option D
	£	£	£	£	£	£	£	£	£	£	£	£
Transport Management*	128,299	2,029,169	2,029,169	2,552,672	128,299	3,930,039	3,930,039	4,977,104	128,299	3,930,039	3,930,039	4,977,104
Transportation Management	61,471	61,471	61,471	61,471	61,471	61,471	61,471	61,471	61,471	61,471	61,471	61,471
Transport Policy	313,215	313,215	313,215	313,215	313,215	313,215	313,215	313,215	313,215	313,215	313,215	313,215
Passenger Transport	7,319,339	7,319,339	7,319,339	7,319,339	7,319,339	7,319,339	7,319,339	7,319,339	7,319,339	7,319,339	7,319,339	7,319,339
Parking	(6,514,757)	(6,514,757)	(6,514,757)	(6,514,757)	(6,514,757)	(6,514,757)	(6,514,757)	(6,514,757)	(6,514,757)	(6,514,757)	(6,514,757)	(6,514,757)
Highways Network Manager	62,225	62,225	62,225	34,791	62,225	62,225	62,225	7,356	62,225	62,225	62,225	7,356
Highways Management	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Traffic Management	457,134	418,006	418,006	245,890	457,134	378,877	378,877	34,646	457,134	378,877	378,877	34,646
Road Safety	165,074	165,074	165,074	52,652	165,074	165,074	165,074	(59,771)	165,074	165,074	165,074	(59,771)
Highways Maintenance	11,470,750	9,609,773	9,609,773	9,483,226	11,470,750	7,748,796	7,748,796	7,495,703	11,470,750	7,748,796	7,748,796	7,495,703
NRSWA	(85,582)	(85,582)	(85,582)	(85,582)	(85,582)	(85,582)	(85,582)	(85,582)	(85,582)	(85,582)	(85,582)	(85,582)
Bridges	208,364	102,182	102,182	102,182	208,364	(4,000)	(4,000)	(4,000)	208,364	(4,000)	(4,000)	(4,000)
Street lighting	2,966,650	2,545,234	2,545,234	2,451,487	2,966,650	2,123,817	2,123,817	1,936,323	2,966,650	2,123,817	2,123,817	1,936,323
Adoptions	(394,401)	(394,401)	(394,401)	(394,401)	(394,401)	(394,401)	(394,401)	(394,401)	(394,401)	(394,401)	(394,401)	(394,401)
Highways Operations	257,713	257,713	257,713	204,105	257,713	257,713	257,713	150,497	257,713	257,713	257,713	150,497
Highways Trading	(1,059,662)	(879,556)	(879,556)	(879,556)	(1,059,662)	(699,451)	(699,451)	(699,451)	(1,059,662)	(699,451)	(699,451)	(699,451)
	<b>15,415,832</b>	<b>15,069,104</b>	<b>15,069,104</b>	<b>15,006,733</b>	<b>15,415,832</b>	<b>14,722,375</b>	<b>14,722,375</b>	<b>14,597,692</b>	<b>15,415,832</b>	<b>14,722,375</b>	<b>14,722,375</b>	<b>14,597,692</b>

Background to potential staff savings (Total Establishment and potential savings for each option)

Service Area	MKC Establishment				Further FTE Savings Options			
	Option A	Option B	Option C	Option D	Option A	Option B	Option C	Option D
Transport Management	2.00	2.00	2.00	0.00	0.00	0.00	0.00	0.00
Transportation Management	1.00	1.00	1.00	1.00	0.00	0.00	0.00	0.00
Transport Policy	5.60	5.60	5.60	5.60	0.00	0.00	0.00	0.60
Passenger Transport	2.00	2.00	2.00	2.00	0.00	0.00	0.00	0.00
Parking	5.00	5.00	5.00	5.00	0.00	0.00	0.00	0.00
Highways Management	2.00	2.00	2.00	0.00	0.00	0.00	0.00	0.00
Highways Maintenance	1.00	1.00	1.00	0.00	0.00	0.00	0.00	0.00
Traffic Management	8.00	8.00	8.00	0.00	0.00	3.00	3.00	0.00
Road Safety	4.11	4.11	4.11	0.00	0.00	0.00	0.00	0.00
NRSWA	3.45	3.45	3.45	3.45	0.00	0.00	0.00	0.00
Adoptions	4.00	4.00	4.00	4.00	0.00	0.00	0.00	0.00
Street Lighting	7.08	7.08	7.08	0.00	0.00	4.08	4.08	0.00
Neighbourhood Management	3.00	3.00	3.00	0.00	0.00	0.00	0.00	0.00
Highways Trading	20.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Employees</b>	<b>68.23</b>	<b>48.23</b>	<b>48.23</b>	<b>21.05</b>	<b>0.00</b>	<b>7.08</b>	<b>7.08</b>	<b>0.60</b>

**Proposed Savings** on Capital Investment

By investing in dimming and trimming of Street Lighting, it is anticipated that there will be saving on energy and maintenance of £36 per unit. This would equate to a saving of £72000

An investment into Highways Maintenance will enable the targeting of resurfacing and surface dressing to areas in the most need. By changing the use of resources and work practices a saving of £570,000 per year is anticipated.

**Appendix I      Not used**

## Appendix J Suggested procurement timetable.

Task	Days	End Date	Day	Notes
Approval to Tender via Cabinet	1	25/7/12	Wed	
Industry Interviews post Call-in clearance		6/8/12	Mon	
OJEU notice/PQQ Publication	28	24/8/12	Fri	OJEU not issued till after further Industry Interviews (post cabinet)
Last date for PQQ submission following expressions of interest	30	24/9/12	Mon	
Evaluate PQQ	14	8/10/12	Mon	
Issue ITT	1	10/10/12	Wed	ITT will need full contract specification, documents, TUPE and asset information.*
Tender return	60	10/12/12	Mon	Such a large contract is bound to need an extension after 40 days so plan 60 days and allow 46 plus 14 day extension.
Tender evaluation	60	11/2/2013	Tues	Evaluation of this size contract will take several people and probable site visits. There will then be a need for Cabinet reports to be signed off. Minimum of 2 months required.
Approval to Award via Cabinet	1	27/2/2013	Wed	Need to put onto Forward Plan (Subject to 20 <sup>th</sup> June 2012 Decision)
Pre-award and unsuccessful letters following call-in period	10	11/3/2013	Mon	
Contract Award following Alcatel	10	<b>25/3/2013</b>	Mon	
Mobilisation and Contract start	184	1 Oct 2013	Mon	6 Months mobilisation period assumed

\* The preparation of documents ready for the ITT will take a significant amount of time to produce and it is difficult to envisage this being achieved unless documents start being prepared in early June which is before the Cabinet meeting in July.

## Appendix K Suggested Scope for procurement.

The PIN had as wide a scope as possible when originally advertised to encourage as wide a range of interest from the Industry as possible. The proposed scope is designed to keep it as open as possible to allow for any extra areas that may be added in later.

The scope is therefore suggested as follows (the numbers refer to the Standard European CPV codes):

Main object 45233139 Highway maintenance work.

### Additional objects

45233223	Carriageway resurfacing works
45233251	Resurfacing works
45221000	Construction work for bridges and tunnels, shafts and subways
45221100	Construction work for bridges
45221119	Bridge renewal construction work
77314000	Grounds Maintenance Services (but not landscaping & grass cutting)
45232450	Drainage construction works
45232451	Drainage and surface works
45232452	Drainage works
50232100	Street-lighting maintenance services
45316110	Installation of road lighting equipment
34928500	Street-lighting equipment
34928510	Street-lighting columns
44113910	Winter-maintenance materials (although not exclusive)
34143000	Winter-maintenance vehicles
34928470	Signage
34922100	Road markings.
63712700	Traffic control services
63712710	Traffic monitoring services
50232000	Maintenance services of public-lighting installations and traffic lights
45316210	Installation of traffic monitoring equipment
45316212	Installation of traffic lights
45316200	Installation of signalling equipment
45233130	Construction work for highways
45233140	Roadworks
45233141	Road-maintenance works
45223200	Structural works.
45233210	Surface work for highways



## Appendix L Risk

The Chartered Institute of Highways and Transportation (CIHT) procurement and delivery panel has produced a paper as an aide memoir on “Commercial relationships and the understanding of risk”. They state:

It is in transferring risk that the opportunity to deliver value, and more importantly reduce cost, is created; with the client providing the opportunity for the “public service” provider to make a margin through more efficient and/or more effective service delivery. Without risk-transfer then why outsource!

It is clear that potential value comes from opportunity which is the flip side of risk. The greater the risk transfer the greater the value that may be achieved.

This theory becomes unstable when risk is transferred to those that do not have the ability to manage the risk.

So it is crucial that clients understand risk and understand the ability of contractors to manage the risk. Failure to do so will undermine the potential value that could be achieved.

If too little risk is transferred a contractor cannot take all the opportunity that is available and therefore the opportunity to trade this potential margin in its tender is lost. Also its service will be constrained and therefore it will not be able to create the efficiencies that it is capable of achieving.

Understanding risks and appreciating risk from the perspectives of both client and contractor is fundamental to identifying the appropriate risk transfer.

If the risk transfer is appropriate in every respect then it is optimised, that is, the risks sits with the party best placed to manage them.

The statement “placing the risk with the party best placed to manage it” has been around for some time and has been recognised as important in the delivery of value. However, until now the importance of the understanding of risk from both the perspective of the client and the contractor has not been given the weighting it deserves.

If risk is not transferred, because the client fails to understand the contractor’s ability to carry and manage the risk then an opportunity for delivering value is being missed for the reasons set out above. The opposite is also true.

If a contractor fails to either understand the risks transferred or the client’s perspective of the risk transferred the opportunity to offer value is also missed. The importance of understanding each other’s perspectives is therefore fundamental to finding the optimum risk balance point.

The issue of risks though is broader than the transfer of risk. There are obviously risks with any procurement exercise but certain options have higher risks than others. The Industry clearly understands that risks often are related to the idea of putting “all your eggs in one basket” with a Strategic Partner, but this can help generate savings by giving opportunity to the Service Provider to profit from the transfer.

There are a number of other risks that are inherent in any Highways procurement process. These may be primarily to Milton Keynes Council as Client but also some will be shared with the Service Supplier. These are tabulated below:

Risks	Risk owner	Mitigations/Benefits
Ability to manage the contract	MK Council	Use standard form of contract and ensure contract management training is built into the training plan.
Impact on Members (e.g. responsiveness to sorting issues)	MK Council	The impact will depend on the size of the remaining Client. The "thinner" the Client the more the need for the Supplier to handle the response. This could also affect costs as the Supplier would be likely to charge extra.
Financial and budgetary management and predictability.	MK Council	By using Schedule of Rate contracts the designs can be fully priced before final start is agreed, this should enable financial transparency. However on design costs will be difficult to constrain costs where scheme proposals are challenged during consultation.
Volume uncertainty with unpredictability of Council budgets and priorities over contract period.	MK Council and Service Provider	Although the contract will need to predict a certain volume of work it will be necessary to consider the likelihood of further major reductions (or increases) as loss of profits and overheads could impact on the price and the risk of this will need to be paid for either in the contract or if implemented.
Clarity of Contractual relationship	MK Council and Service Provider	The decision as to the form of Partnership and exact contractual basis would need to be clearly defined if this risk is not liable to add cost at tender stage.
Lack of understanding by Supplier of the Milton Keynes Council's needs	MK Council and Service Provider	Development of the partnership will be carried out as part of the mobilisation including joint training and workshops. However problems develop over contract period with loss of original staff with strong public service ethos and move to hard commercial approach leading to perceived poorer and more expensive service delivery.
Pricing exposure	MK Council and Service Provider	The current economic climate means that prices may well be as competitive as possible. High commodity prices (like oil) could move either way and the use of the right indices should help protect both the Council and the Service Provider.
Delivery of value	MK Council	Business case has helped show potential value if tender gives savings early on the value will be delivered early if not the contract should be able to deliver value over time
Continuing Performance	MK Council and Service Provider	The current performances will need to be the base position for any new contract and Key Performance Indicators will need to ensure on-going improvements throughout the term of the contract. However Performance Indicators will need careful crafting during document development to ensure this as well as strong management during contract period.
Reputation	MK Council and Service Provider	This is a risk both to Milton Keynes Council and to the Service Provider and will help motivate a true partnership. Problems have developed with a number of these contracts leading to early contract termination or transferring back of some functions (e.g. street lighting at Milton Keynes)
Service Provider insolvency	MK Council	The current state of the Industry is such that many companies are stretched financially. Throughout the procurement process the financial stability of the Service Providers will need to be established. It would be possible to award a back-up contractor but this is unlikely to be able to be for the length of the Term of the contract without some actual work being given to them.
Cash flow	Service Provider	Milton Keynes Council will be able to help mitigate this risk by on-time payment of invoices.

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## Appendix M Glossary of Terms and Abbreviations

### Terms:

**Competitive Dialogue** The European Union (EU) directives introduced a new procedure, the Competitive Dialogue. It specifically permits dialogue between the contracting authority and contractors during the stages of the procurement process. This procedure is aimed at large, complex contracts. It enables contracting authorities to develop specifications with the input of contractors, and to assist contractors in developing tenders that are responsive to the specifications.

**Design and Build Contracts** are as the name suggests contracts which cover both the design and the construction of the particular work. They are generally for large single schemes or projects.

**Early Contractor Involvement (ECI)** is as the name suggests the inclusion of the Contractor as early as possible in the design stage of any scheme to enable the designers to take into account anything from innovation and latest technology that the Contractor can offer to an understanding of how costs can be reduced to the Contractor (and often passed on to the Client) by design.

**Highway Maintenance Efficiency Programme (HMEP)** is a sector-led transformation programme to maximise returns from highways investment and delivery efficiency, sponsored by Department for Transport with £6m of Central Government funding for the period 2011-2013 and the programme runs to 2018.

**Industry Day** In order to establish the interest from the market and the effect packaging of the Contract could have on the potential interest it is now fairly common to run a day for potential suppliers from the Industry sector.

**Invitation to Tender (ITT)** is the second stage in a Restricted Tender procedure which asks detailed questions of suppliers for short-listing purposes.

**Lots** are subdivisions of a contract into separate packages that can be tendered for and awarded separately but are in one procurement process so that Suppliers can offer savings on the award of more than one Lot to the same supplier.

**Midlands Highways Alliance (MHA)** The Midland Highways Alliance was formed in 2007 and comprises 18 local highway authorities with £12m worth of tracked savings to date. Milton Keynes Council is one of the member authorities.

**Milton Keynes Council (MKC)** is the Borough Council for the area of Milton Keynes and surrounding towns and villages and is a Unitary Authority

**MK Approach** is a Milton Keynes Council Project Management tool based on Prince2 methodology.

**Most Economically Advantageous Tender (MEAT)** This is a method of evaluation enabling the contracting authority to take account of criteria that reflect qualitative, technical and sustainable aspects of the tender submission as well as price when reaching an award decision.

**NEC3** Originally launched in 1993, and then known as the 'New Engineering Contract', is now in its 3<sup>rd</sup> edition and so NEC3 was launched in 2005. The 3<sup>rd</sup> Edition includes new documents, especially the Term Service and Framework Contracts designed to expand the appeal and usage of the NEC. NEC3 comes with a full endorsement from the UK Office of Government Commerce (OGC), through the Construction Clients' Board, which recommends the NEC3 for use on all public sector construction projects.

**Novate** is the legal term for the substitution of a new contract for an old one. The new agreement extinguishes the rights and obligations that were in effect under the old agreement.

**Open Tender** is the EU (European Union) tender procedure with only one stage because it requires no use of a selection stage. There is no opportunity to short list suppliers using this approach. All suppliers responding to an Open Tender are provided with the tender documents (ITT - Invitation to Tender) to complete and return.

**Outline Business Case (OBC)** is this document which aims to give in outline a business reason for the course of action proposed.

**Organisational Transformation Programme (OTP)** is a programme established by Milton Keynes Council to help deliver service improvement and efficiencies.

**Pre-Qualification Questionnaire** is the first stage in a Restricted Tender procedure which asks detailed questions of suppliers for short-listing purposes.

**Price Adjustment Formulae Indices (Highway Maintenance)** are the new industry led price adjustment indices published by the Building Cost Information Service and are an alternative to the less specific indices like Retail Price Index.

**Prince2** stands for PProjects IN Controlled Environments 2 and is a structured project management method endorsed by the UK government as the project management standard for public projects.

**Restricted Tender** is an EU tender procedure with two stages. Suppliers who express an interest in the contract are sent a Pre-Qualification Questionnaire (PQQ). If they meet the criteria, they are then shortlisted and invited to tender (ITT stage).

**Schedule of Rates (SoR)** is a part of the tender documentation where the Supplier gives individual prices for individual items. There are often different rates for different quantities so that the price per square metre of road reduces when a machine is able to lay large quantities as opposed to the more labour intensive requirement for resurfacing pot-holes or trenches. The key to this is an evaluation model based on likely work in order to ensure the combination of rates gives the best price for the Council.

**Shortened Competitive Dialogue** This is the same as the Competitive Dialogue Process (see above), although one of the stages within the process is not used (the Invitation to Submit Outline Solutions) and thus shortens the process as Tenderers move straight to submitting final solutions.

**Small and medium size enterprises (SMEs)** these are exactly what the title describes but are often considered critical to the health of the economy and also tend to be more local or regional than larger businesses which can be national or international.

**Transfer of Undertakings (Protection of Employment) Regulations 2006**

**(TUPE)** are the United Kingdom's implementation of the European Union Business Transfers Directive. It is an important part of UK labour law, protecting employees whose business is being transferred to another business. The 2006 regulations replace the old 1981 regulations which implemented the original Directive

**Term Maintenance Contract (TMC)** is a contract for Highways Maintenance Work (covering everything from the smallest defect to large resurfacing and major schemes) that is for a set length of time (or Term).

**Top-up Contracts** are as their name suggests additional support for areas where there is an in-house team but there is a need from time to time to add extra staff or skills to "Top-up" on both an ad-hoc and more long term basis.

**Unitary Authority** is a Local Council that has responsibility for all the services within the boundary of its geographical area other than those with National Government or Parish Councils.

**Abbreviations:**

BCIS	<i>Building Cost Information Service,</i>
CPV	<i>Under European Public Procurement the CPV establishes a single classification system for public procurement aimed at standardising the references used by contracting authorities and entities to describe the subject of procurement contracts.</i>
ECI	<i>Early Contractor Involvement</i>
EU	<i>European Union</i>
HMEP	<i>Highway Maintenance Efficiency Programme</i>
HTMA	<i>Highways Term Maintenance Association</i>
ITT	<i>Invitation to Tender</i>
MEAT	<i>Most Economically Advantageous Tender</i>
MHA	<i>Midlands Highways Alliance</i>
MKC	<i>Milton Keynes Council</i>
NEC 3	<i>Third edition of New Engineering Contract but simply known as NEC3 (See "Terms" above)</i>
OBC	<i>Outline Business Case (this document)</i>
OTP	<i>Organisational Transformation Programme</i>
PQQ	<i>Prequalification Questionnaire</i>
RPI	<i>Retail Price Index</i>
RPIX	<i>Retail Price Index (excluding mortgage interest payments)</i>
SME	<i>Small and medium size enterprises</i>
SoR	<i>Schedule of Rates</i>
TMC	<i>Term Maintenance Contract</i>
TUPE	<i>Transfer of Undertakings (Protection of Employment) Regulations 2006</i>
UK	<i>United Kingdom</i>