

# Progress Report. Highways Partnership Project

## August 2009

Southampton City Council

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Date

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# Introduction/Background

- 1 Southampton City Council's Highways and Parking Services is responsible for the services underpinning the delivery of the Local Transport Plan, together with a range of associated services including car parking and maintaining the network infrastructure.
- 2 Although the service has made significant progress on its improvement journey since the service recovery process began in 2005, the network remains in an unsatisfactory overall condition and further major investment is required to bring the network up to a designated standard.
- 3 Services are currently being delivered through a tri-partite arrangement, known as the Southampton Highways Partnership, which supplements in-house resources with technical support from consulting engineers Halcrow and contracting support with Colas Ltd.
- 4 Both the consulting and contracting contracts were due to finish in 2008, although arrangements have been put in place until 2010, with the opportunity to extend until September 2012. Although the Council expressed interest in obtaining PFI highway credits in September 2006, it was confirmed in December 2007 by the Government that its application was unsuccessful leaving the Council to explore alternative delivery options. In March 2007, the Council developed an outline strategy predicated upon a number of 'Critical Success Factors' (CSFs) and on the basis of this strategy the Council decided to test its strategy against the market and entered into an OJEU procurement to find a strategic partner to enable it to deliver its highway service effectively, whilst also obtaining both network infrastructure and performance improvement.
- 5 The Council developed an 'Outline Business Case' (OBC) in which it identified annual net financial benefit of £443k (3 per cent of total highways spend) based upon a savings estimate of 6 per cent on an investment of £14.2m. Given public sector finance constraints this investment figure is now likely to be nearer £10m and the annual net financial benefit has reduced to £275k (2.75% of total spend) with client monitoring costs remaining at 2 per cent for both scenarios.
- 6 In June 2009, the Council produced a 'Checkpoint Review' internally which although it posed challenges to the project indicated that it should proceed to the next stage the Invitation to Submit Detailed Solutions (ISDS) where it intends to further test assumptions before deciding whether to proceed further with the procurement.

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# Risks to be addressed.

- 7 In carrying out this work we are not seeking to influence directly any decision the Council might take on this matter, which remains the responsibility of the Council. For this reason, the purpose of this briefing note is to presenting our views in terms of risks we believe the Council faces rather than in terms of judgements. In reaching its decision, we recommend that the Council needs to consider these risks, and whether it should mitigate, manage or accept them.
- 8 Whilst the work has not involved an in depth detailed audit of the contract development it has involved interviews with key officers, an examination of key documentation and attendance at project board meetings.
- 9 In order to try and provide some contextual clarity the risks are posed under three headings:-
  - Affordability/Finance
  - Value for Money; and
  - Service Continuity.

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## Affordability/Finance

- 10 The original figure available to fund the partnership of £14.2m has been reduced by the Council to approximately £10m, owing to financial constraints. Given that in earlier documentation this lower sum was identified as being the level of investment just to prevent further deterioration of the highway asset, the maximum benefits which can be expected from any new arrangements are likely to be those relating to changed working practices and any economies of scale a future commercial partner might bring.
- 11 As outlined in paragraph 5 above the level of annual net financial benefit is now likely to be reduced to £275k per annum and this needs to be weighed against the contract monitoring required by the Council to performance manage the contract. A comparison with the percentage client monitoring costs in respect of the existing Capita Strategic Services Partnership (SSP) contract might provide clarity, given the apparent marginal financial gain, indicated in the current cost-benefit analysis work by the Council.
- 12 Given the apparent marginal financial gain expected from the contract the Council needs to be aware that contractual liability will mean that it is unable to further reduce the annual expenditure, without at the very least incurring performance decreases. It should also be remembered that commercial tenderers are required to take a profit-based view to any contract and any possibility of changes to the affordability envelope usually results in an increased risk premium, which diminishes further infrastructure or performance gain for the Council.

*Risk 1: Does the Council consider that the strategic approach in respect of highways provision now being placed before them is in the best interest of the Council and its citizens and is affordable over the course of the contract?*

## Risks to be addressed.

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### Value for Money

- 13** One of the ten Critical Success Factors (CSFs) is the ability to 'Deliver improved value for money' and the lack of clarity as to how this will be achieved is highlighted in the Council's 'Checkpoint Review'. Another CSF to 'Derive economies of scale' is subject to similar concerns.
- 14** In the Council's response to the 'Checkpoint Review' it is indicated that:
- a partnership approach is based on the premise of improved quality of service for the same level of funding and the efficiency figure identified was not intended as a 'cashable' figure
  - for an agreed lump sum the partnership will need to demonstrate its ability to meet performance standards which are significantly higher than the Council's current standards; and
  - capital projects expected under the contract will be measured upon sample schemes. In that the costs submitted by bidders at ISDS will be compared to the cost of delivering those schemes using the Council's current arrangements.
- 15** However, it should be remembered that if the annual lump sum reduces so will the associated performance targets and the Council's ability to develop capital schemes over the course of the contract, might initially at least be constrained, by the lack of public sector finances for such schemes.

*Risk 2: If the Council is proceeds to the ISDS stage what measures and ongoing monitoring arrangements will it put in place to make sure that value for money is assured?*

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### Service Continuity

- 16** The decision to initiate an OJEU procurement to find a partner to deliver the highways strategy was taken before the economic downturn. The impact of the recession has meant that the availability of public sector finance has been or is being curtailed.
- 17** It is important therefore that the Council develops alternative options to ensure continuity of service provision should the procurement for whatever reason not come to fruition. Although the Strategic Business Case identified a number of options these were developed in a different financial climate and would probably need to be reconsidered.

*Risk 3: What steps is the Council taking to ensure continuity of service provision should the highways partnership not come to fruition for whatever reason?*

- 18** Given the ongoing changing financial circumstances the Council needs to constantly update its financial scenario analysis to ensure that in its decision-making it fully understands the current financial ramifications of its decisions. This is particularly important, given as highlighted above that the Strategic Business Case and its associated option appraisal were developed in as stronger financial climate.

*Risk 4: What steps is the Council taking to ensure that its financial scenario planning is kept up to date to ensure that it understands the financial ramifications of any decisions which it takes?*

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