

Highways Futures Project
Audit Commission: Progress Report. Highways Partnership project
Council Response
V02 170909
Audit Commission Comments 171109
[Project Team Comments 291109](#)

Para/Risk No.	Audit Commission Report	Council Response (17/09/09)	Further Action (17/09/09)
Para 5	<p><i>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.</i></p>	<p>The annual net financial benefit (an attempt to quantify the anticipated % output increase against annual turnover) identified in the original Outline Business Case (OBC) was a prudent illustrative figure provided to assist the decision on whether to market test (i.e. Commence the procurement process), or not, the Council's strategy. A key objective of the procurement process is to judge the benefit which the Partnership will deliver.</p>	<p>No further action is necessary in relation to this specific point.</p> <p>TT) Lack of quantification as to how vfm will be judged in relation to the proposed partnership. Needs to be financial qualification as to the level at which the scheme will not be considered financially viable.</p> <p>SCC - ISDS submissions have identified a quantifiable financial benefit and VFM case.</p> <p>Outline Business Case Addendum provides further information and measurement methodology for VFM. Cabinet Report scheduled for Feb 2010 will identify the minimum required benefit.</p>

<p>Para 10</p>	<p><i>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.</i></p>	<p>Only a PFI or a significant increase in capital funding can deliver significant improvements to the network. In the absence of significant additional funding this alternative strategy was developed 'with the aim of improving service levels, maximising existing resources and delivering efficiency savings to be reinvested back in the network.'</p> <p>.....'The partnership will ensure that the Council is making best use of its existing resources, however it must be noted that it will not eliminate the identified investment gap.' (Cabinet 30/06/08-Council 16/07/08).</p> <p>It should be remembered that over and above the cost/vfm benefits that the Partnership will bring there are a number of other more qualitative benefits such as the major cultural change which will be delivered, the improvement in service performance, the access for staff to wider learning and development, the ability to access wider market expertise, the development of stronger links with local training providers, the development of the local economy through development of sub-contractor and</p>	<p>No further action is necessary in relation to this specific point.</p> <p>TT) In the light of the reduced investment since the Initial Business Case the Council appears to be introducing new non-financial criteria by which it will judge potential bidders. If this is the case such criteria should be agreed with Members.</p> <p>SCC - Non-financial benefits referenced are not 'new', identified in Cabinet Report 30/06/08 and original OBC.</p> <p>Benefits Realisation Plan detailed in OBC Addendum.</p> <p>To be referenced in forthcoming Cabinet Report.</p>
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		supply-chain relationships.	
Para 11	<i>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.</i>	<p>An allowance has been made by the Council for Client Monitoring costs. This has been deducted from the affordability figure.</p> <p>The SSP client approach was examined and considered as part of the development of the Highways Client Team (which also incorporates the Street Lighting PFI client). The role of the client for the Highways Partnership will not be an exact replica of the SSP approach given the differing nature of the services but it is acknowledged that since previous discussions with SSP Client team there are likely to be further lessons to be learned.</p>	<p>Review the client approach in the context of the SSP client approach and costings.</p> <p>TT) The Council should in the course of its review calculate the net savings which it might expect given its proposed level of annual investment.</p> <p>SCC - Client costs have been determined using a number of comparator benchmarks. Required budget for client costs is top-sliced from affordability budget and therefore forecast savings are net of client costs (the savings are not funding the client team).</p> <p>Addressed in detail in OBC Addendum. To be referenced in forthcoming Cabinet Report.</p>
Para 12	<i>...contractual liability will mean that [the Council] is unable to further reduce the annual expenditure, without at the very least incurring performance decreases.</i>	<p>There is a difference between Capital spend and Revenue spend.</p> <p>The proposed contract approach does not guarantee a level of Capital spend for the Partner. Therefore, the Council has the flexibility to amend the capital budget on an annual basis (Commercially it would be better to</p>	<p>No further action is necessary in relation to this specific point.</p> <p>TT) Whilst this is understood the Council still needs to ensure that if either its annual capital or revenue budget diminishes that its client side costs are not greater than the annual</p>

		<p>guarantee a capital budget). The revenue budget will be fixed for the life of the contract, guaranteeing a fixed service level for the life of the contract. If the Council wishes to adjust the revenue budget this will be possible, however, as noted, this would require a reduction in service. This is not substantively different from the current position. Although a renegotiation would be required, the open book accounting approach and benchmarking clauses would support the Council to ensure vfm was still being delivered. Positively, the impact on the service performance, and the road network as a result of a budget reduction would be much clearer and better understood than currently.</p>	<p>savings generated by the contract. SCC - Same comment as above – client budget is top-sliced from affordability budget. However, it is acknowledged that there will be a fixed overhead/cost which will be incurred to fund a client team regardless of the level of spend channelled through the Service Provider. (i.e. there will always be a requirement for a set number of client posts to manage the contract)</p>
<p>Para 12</p>	<p><i>It should also be noted 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.</i></p>	<p>This is why it is important that through the procurement process the Council does not change its affordability. Affordability has been consistent since the commencement of dialogue despite the current Council budget saving requirements. If the Council requires further budget reductions which affect the affordability then bidders are likely to price some risk. Thus the short-term saving will have a disproportionate</p>	<p>Council to consider whether further budget savings should be required from in-scope highways services. TT) The Council’s response needs to be shared with Members to inform decision-making in respect of the decision to award the contract. SCC – affordability regularly reviewed.</p>

		affect on the reduction in service able to be provided by the Partnership (ie reduction in affordability = reduced budget available for service delivery + increased risk premium)	To be referenced in forthcoming Cabinet Report.
Risk 1	<i>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?</i>	There is still no other alternative for delivering increased service improvement over the same condensed time-frame for the same up-front cost. The affordability of the Partnership will be demonstrated, or not, through the submission of detailed solution bids (ISDS). At this point a decision will be required, based on information from the procurement process, on whether the Council should proceed to Final Tender stage. The Council is confident that the information provided at ISDS will be sufficient to make a judgement on the benefits of the Partnership.	No further action is necessary in relation to this specific risk. TT) Noted.
Para 13	<i>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 delivered is highlighted in the Council's 'Checkpoint Review'. Another CSF to 'Derive economies of scale' is subject to similar concerns.</i>	It is not felt that there is any lack of clarity over how any of the CSFs will be delivered through a Partnership. For example, 'improved value for money' will be delivered through more efficient working practices and processes and greater productivity. Whilst economies of scale will be delivered through the Partners increased buying power in the market and better sourcing and supply-	No further action is necessary in relation to this specific point. TT) It is the specific measurements/indicators attached to these CSFs which need to be determined. OBC Addendum identifies how these benefits will be measured.

		chain management.	
Risk 2	<i>If the Council 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?</i>	<p>ISDS Submissions will assist the Council in assessing VFM in a number of ways:</p> <ul style="list-style-type: none"> - bidders must deliver a level of service much greater than the Council currently delivers for the same (or less) cost. - Bidders must price for delivering sample schemes. These prices will be compared against how much it would currently cost the Council to deliver these schemes. <p>After the submission of ISDS bids the Council will determine whether to continue to Final Tender stage. Final Tender stage will require the resubmission of information at ISDS plus additional information which will further support VFM and the demonstration of benefits. Appendix A expands on how the project will assess Value for Money.</p>	<p>No further action is necessary in relation to this specific risk.</p> <p>TT) Noted.</p>
Risk 3	<i>What steps is the Council taking to ensure continuity of service provision should the highways partnership not come to fruition for whatever reason?</i>	<p>If the Partnership does not come to fruition then service continuity will be maintained through the existing in-house resource and the existing contracts which can be extended until September 2012.</p>	<p>No further action is necessary in relation to this specific risk.</p> <p>TT) Noted.</p> <p>SCC – Forthcoming Cabinet Report will</p>

		<p>If the project were to cease the Council would be required to consider the future direction of the service. Business as usual would continue along with, possibly, one of the following options are:</p> <ul style="list-style-type: none"> - Explore possibility of further PFI credits; - Procure further contracts for works and design consultancy (likely 5 year minimum); - In-house service transformation programme reviewing all service processes, technologies, performance levels, resource requirements etc; - Joint/Regional working 	<p>identify impact of not continuing with this approach and provide a range of practical considerations.</p>
<p>Risk 4</p>	<p><i>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?</i></p>	<p>The financial ramifications of the Partnership will be reviewed after the submission of ISDS bids and prior to Call for Final Tender (if the Council has approved the move to this next stage). However, it is not clear from a project perspective whether the Council is considering the implications of its wider financial planning process on the project.</p>	<p>The Council considers how the implications on the Partnership project of its wider financial planning process are taken into account.</p> <p>TT) This interdependency needs to be made clear to Members.</p> <p>SCC – This issue has been raised at Project Board level and within Service budget setting process.</p> <p>To be referenced in forthcoming</p>

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