

Agenda Item No. 6(i)

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**31 January 2019**

Report of the Strategic Director for Economy, Transport and Environment

**ENTERPRISING COUNCIL – A FUTURE OPERATING MODEL FOR THE  
HIGHWAYS SERVICE (HIGHWAYS, TRANSPORT AND  
INFRASTRUCTURE)**

(1) **Purpose of Report** Further to a review of the County Council's Highways Service under the enterprising council initiative, to approve the Future Highways Model as the new way of delivering the service.

(2) **Information and Analysis**

**Background**

**Enterprising Council Approach**

The County Council's new enterprising council approach was approved by Cabinet at its meeting on 22 February 2018 (Minute No. 63/18 refers). This initiative strives to do things differently, to take bold decisions and make the most of new opportunities in order to improve the levels of service to Derbyshire residents.

Another report to this Cabinet meeting seeks approval of the draft Enterprising Council Strategy and provides an update on the work being undertaken to develop and deliver this approach.

The Highways Service was identified as an "early start" to adopt the enterprising council approach. This is not because it is an underperforming service but, as highways is one of the most universal and high profile County Council services, an early review of its operational model and the relationship with communities was considered to be beneficial.

The enterprising council challenge, which should lead to service transformation and noticeable improvement in performance, was considered vitally important at a time of increasing budget pressures on the Highways Service.

## **The Current Highways Service**

Derbyshire's highways infrastructure is the County Council's most valuable asset, with a gross replacement cost estimated at over £8.3 billion. The network comprises around 3,500 miles of roads and associated infrastructure, such as footways, over 1,000 bridges, more than 700 miles of retaining walls, over 90,000 street lights and numerous traffic signals and signs.

The Highways Service that manages, maintains and improves this network has a record of high performance. Derbyshire County Council has been rated No.1 against 27 other county councils for public satisfaction with the National Highways and Transport (NHT) survey for the past two years. The service took top spot for road safety and highway maintenance, with top four positions for street lighting and traffic levels and congestion. It also produces top quartile performance with the Association for Public Service Excellence (APSE) survey for highway condition, repairs, street lighting and dealing with potholes.

The service has a flexible delivery model, meaning it can adapt rapidly to changing circumstances by making the best use of internal and external resources. This ability meant that, for example, the team assembled to deal with the serious impact of last year's winter on the condition of the County's roads was able to repair over 66,000 potholes in 2018, compared to the 25,000 or so in a "typical" year.

The split of services is typically 50/50 internal/external, but this changes annually depending on the workload. Support for design and construction services are sourced through frameworks available with the Midlands Highways Alliance, of which the County Council is a founder member, and other competitively sourced providers.

The County Council has been an early adopter of asset management principles, thereby making the most effective and efficient use of funds in order to invest in and maintain the network. The service has achieved the highest band 3 status with the Department for Transport, which helps to maximise the level of capital grants available through the Local Transport Plan. Failure to do this would have lost the Service £3.2 million this financial year.

Derbyshire leads the Midlands Service Improvement Group (MSIG), and a number of notable improvements in service performance have been achieved recently by adopting local best practice. This includes a fully reworked reactive service which, together with the introduction of the Highways Hub, has seen a leap in defect repairs from under 50% on time to over 86% in December, including 100% for all urgent defects.

A major reorganisation of the Service to create a commissioner/provider model is currently underway, which will bring greater emphasis to team roles

and their interdependencies. The commissioner function comprises the Highways Strategy and Network Planning sections; the provider function is made up of Highways Design and Highways Construction.

### **Benchmarking the Current Service**

Being an early start for review under the Enterprising Council initiative, it was important that an in depth review would:

- Understand current performance against other highway authorities
- Develop action plans for improvements
- Challenge the way services are delivered and look at other options
- Investigate opportunities for income generation or new income streams

The County Council has employed Proving Services Ltd, part of Cranfield University's School of Management, to undertake an independent review of the Service and to advise on alternative operating models. Proving Services Ltd is an academic organisation, not a consultancy, and has a wealth of unbiased knowledge and experience of the UK highways sector through years of academic research. It leads and manage the Future Highways Research Club (FHRC), a group of 22 innovative and high performing highway authorities from across the country. The County Council is a member of the FHRC and will be involved in innovative service improvement pilots in 2019, including hosting a regional design innovation workshop in the Spring.

Proving Services Ltd has developed a unique value for money (VfM) benchmarking model to measure performance of the highways maintenance sector. This model has recently been acknowledged as setting a national standard through its endorsement by the Association of Directors of Economy, Environment, Planning and Transport (ADEPT).

Benchmarking the Service involved assessing the Service against a suite of over 60 VfM criteria to score the service against other highway authorities. These criteria cover a wide range of measures that are important to local authorities and their highway services. These include attributes such as; operational costs, service delivery to time and budget targets, customer satisfaction, environmental benefits, network availability, relationships with stakeholders such as members, other councils and the public.

Proving Services Ltd's VfM analysis shows that the County Council scores well for effectiveness and strategic value compared with other FHRC members and highway authorities as a whole. The Service delivers a network that works well for its users and is effective in ensuring key outcomes like network availability.

However, the assessment also shows that, compared to its peer group, there is room to improve the Service's economy and efficiency to do more with the available resources and to reduce costs. Despite this view, looking at three

common areas of work suggests that the Service can be cost effective when compared with other providers. For pothole repairs, surface dressing and maintenance design, the internal design and construction services have proved to be comparable or cheaper than services provided by external partners.

Overall, it is clear there are opportunities to achieve better performance and the analysis has identified priorities for improvement against the best in class.

### **A Future Highways Model**

Proving Services Ltd's analysis and experience shows that Derbyshire is well-placed to bring about a transformational improvement to its Highways Service. To do this, it suggests that the best option for the County Council is to adopt a new way of working, called the **Future Highways Model**.

Three elements make up the proposal:

- A new commissioning approach to prioritising and procuring services
- An improvement plan to tackle priority areas of service
- A strategic programme of supporting initiatives intended to maximise effectiveness of the service and a package of commercialisation options to generate income or reduce costs to the County Council

### **Commissioning**

Evidence from Proving Services Ltd's evaluation of FHRC members' operating models and best practice suggests that the best performing highway services have a robust commissioner/provider model at their heart. The Service is already making significant strides to achieve this through its current reorganisation.

The principle of effective commissioning is to reconnect service providers, the County Council, with Service users and the elected members who represent them. Therefore, instead of Service providers interpreting the needs and priorities of communities, those needs and priorities are explicitly stated through the commissioning process.

In such a process, there is a clear thread running through Service users, elected members, those who commission services and those who provide them. Each commissioning stage is required to demonstrate that the outcomes have been delivered and "best value for money" achieved.

The proposed Future Highways Model will retain the current mix of internal and external providers. The required outcome of the Service would be determined using the new commissioning framework which would set specifications and performance criteria for discrete areas of Service such as, for example, winter maintenance or highways design.

The Service would be agnostic as to whether the delivery model uses in-house or external providers, or a mix of both. The challenge is to achieve the performance required for that individual area of Service irrespective of delivery. The new model is more about determining what is required of the Service than who delivers it.

In this way, Service providers are incentivised to meet the specification or to risk losing the work. The organisation only needs to change the provider for those areas that are under-performing and not the whole Service, which would risk changing well-performing areas, as well as those needing improvement.

### **Improvement Plans**

In addition to adopting a commissioning approach to Service delivery, there will also be a programme of improvements that have been identified and prioritised through the VfM analysis.

The current operating model, while performing reasonably well, has the potential to significantly improve its performance. Work has already started to develop initiatives into workable improvement plans, all aligned to deliver an overall vision “to provide a safe and reliable highway network”.

The improvement themes are focused on the following areas:

- A commissioning delivery model
- Sustainable and flexible service delivery options
- Effective workforce planning
- Lean and efficient services
- On budget, on time and error free delivery
- Transparent customer engagement
- Community empowerment
- Effective risk management
- Maximised inward investment and commercial opportunities

### **Strategic Programme**

FHRC members' experience and research into best practice has identified activities and initiatives that bring about significant additional service benefits on top of those that can be achieved through service redesign alone.

The new ways of working will, therefore, also include the Strategic Programme, which will support and enhance the effectiveness of the new Service. This includes areas such as commercialisation (generating new income streams and opportunities), effective communications, downward devolution, community engagement and improved success in winning bids and grants.

There is a strong element of commercialisation in the Strategic Programme. This is vitally important, as it is clear from the needs of the network that efficiencies alone are unlikely to deliver the necessary level of change and improvement that will support a sustainable highways service. Commercialisation is also a strong element of the enterprising council approach, bringing in additional funds and opportunities to provide services to new customers.

FHRC members are currently running pilots for a long list of possibilities to generate income, so future decisions of improving income will be based on real-life experience with greater certainty and less risk. Examples include the use of street lighting columns for 5G aerials/repeaters, recycling of materials and improved services to developers that could be marketed.

### **Delivering the Future Highways Model**

The timescale for full implementation of the Future Highways Model is expected to be two years, although the majority of changes should be evident within the first year.

In the first six months, progress is anticipated in the introduction of the new commissioning framework, developing improvement plans for priority service areas, reviewing the service financial model and identifying the priority commercialisation opportunities.

In the remainder of the first year, it is expected that the new operating model will be in place, with new reporting and control systems established and the first pilot projects of downward devolution programme well under way. The second year will look to consolidate the new model, as well as establishing a full commercialisation programme and implementing its first projects.

### **Alternative Delivery Options**

Proving Services Ltd has carried out an independent assessment of the Future Highways Model in comparison with a variety of alternative delivery models that are common across the highways maintenance sector. These include a joint venture such as used in Staffordshire, a single provider such as found in Suffolk, and an arms-length company (Teckal) of the sort used in Nottinghamshire.

The assessment, using a common factor set of criteria as used in the VfM assessment, shows that the Future Highways Model will significantly outperform any of the alternative delivery options in terms of value for money.

While value for money is a key consideration, there are other criteria that need to be understood before deciding on a recommendation. FHRC's members' experience sheds significant insight on the alternative models available to the County Council. With few exceptions, FHRC members all have mature

arrangements in place with external providers, and Proving Services Ltd's analyses of these models show a number of common issues.

Firstly, while a number of years ago it was possible to achieve savings of around 6-8% by externalising a highways service, efficiencies and improvements made by local authorities over recent years means that savings on offer are marginal, typically only 1-2%.

Set against these possible savings are the full costs of outsourcing, which FHRC authorities report are typically between £1.5 million and £2.1 million. Indeed, Proving Services Ltd estimates that these are likely to be higher in the County Council's case as this would be a first-time service redesign to outsource.

Experience of externalised models identifies a loss of agility and strategic alignment will be a consequence, leading to frustrations within the client organisation and strained working arrangements between the parties. Finally, experience shows that it typically takes two years to engage a new supplier from initial soft market testing to mobilisation of the new provider. On top of this, performance drops noticeably for a period of around four years during demobilisation of the current provider and the new provider settling in before operating at expected levels.

In conclusion, Proving Services Ltd's analysis shows there is a clear and demonstrable performance advantage of the Future Highways Model over all other alternative models available to the County Council. In addition, there are significant disadvantages with the alternatives which suggest that adopting any of these other models would incur significant risks, costs, performance fall-off and operational frustrations.

Implementing the Future Highways Model would be quicker and cheaper to implement, offering greater flexibility and agility in the future and better alignment with County Council values.

It is, therefore, recommended that the Highways Service adopts the Future Highways Model, including the Strategic Programme of supporting service improvements.

**(3) Financial Considerations** While the costs of implementing any of the alternative models discussed in the report is estimated to incur costs of at least £1.5 million to £2.1 million, which will be avoided with the Future Highways Model. However, there are likely to be some costs associated with some of the improvements from implementing the Future Highways Model. It is estimated that these could be up to £250,000 over the two years. The funds will either be found through existing revenue budgets or invest-to-save business cases.

(4) **Legal Considerations** The Director of Legal Services will provide advice and assist with the implementation of the Future Highways Model for the Highways Service of Derbyshire.

(5) **Human Resources Considerations** The Future Highways Model will influence the processes and working methodologies of the highways review proposals already agreed by Cabinet on 26 April 2018 (Minute No.137/18 refers), but is not expected to have any implications that differ with already approved staffing structures and levels.

(6) **Social Value Considerations** By retaining strategic control of the Future Highways Model, the County Council will have the opportunity to promote social value initiatives, such as the use of local suppliers of services and materials, and to maintain its well-established apprenticeship and trainee programmes.

### **Other Considerations**

In preparing this report the relevance of the following factors have been considered: prevention of crime and disorder, equality and diversity, environmental, health, property and transport considerations.

(7) **Key Decision** No.

(8) **Call-in** Is it required that call-in be waived for any decision on this report? No.

(9) **Background Papers** Held on file within the Economy, Transport and Environment Department. Officer contact details – Geoff Pickford, extension 38194.

(10) **OFFICER'S RECOMMENDATIONS** That Cabinet:

10.1 Approves the adoption of the Future Highways Model for the Highways Service for Derbyshire.

10.2 Agrees that progress on the new model's implementation and improvements is reported as appropriate as part of the County Council's enterprising council initiative.

**Mike Ashworth**  
**Strategic Director – Economy, Transport and Environment**