



DERBY CITY COUNCIL

**PLANNING AND TRANSPORTATION
COMMISSION
4 NOVEMBER 2008**

ITEM 9

Report of the Corporate Director of Corporate
and Adult Services

Highways - Contractual Issues

RECOMMENDATION

- 1 To consider the operation of the Highways Maintenance Term Contract

SUPPORTING INFORMATION

- 2.1 This item is included on the agenda at the request of Cllr Banwait. He is concerned about the backlog of work under the highways maintenance contract and the extent this is delaying the delivery of highways projects. The present contract was awarded in 2007 and this report provides background information by providing hyperlink access to three reports and the associated minutes. Also, at Appendix 2, is an extract from a recent report.
- 2.2 The report to Council Cabinet on 16 January 2007 is accessible via:
<http://cmis.derby.gov.uk/CMISWebPublic/Binary.ashx?Document=8073>

The associated minute was:

183/06 Highways Maintenance Term Contract Renewal

The Council Cabinet considered a report on Highways Maintenance Term Contract Renewal. The existing Highways Maintenance Term Contract was due to terminate in August 2007. There were benefits to be gained by negotiating a new term contract, based on the concept of partnering. The recommended minimum duration for the new contract is five (5) years, with a three (3) year extension awarded annually and based on performance.

Decision

1. To prepare documents and seek bids for the renewal of the Highways Maintenance Term Contract based on the concepts of partnering for the period 2007 – 2012, with permitted extensions up to 2015.
2. To note the contents of the report and also note that a further report would be submitted to Cabinet seeking approval to enter into the Final Contract.

- 2.3 The report to Council Cabinet on 3 July 2007 is accessible via:
<http://cmis.derby.gov.uk/CMISWebPublic/Binary.ashx?Document=9276>

The associated minute was:

25/07 Highways Maintenance Term Contract Renewal

The Council Cabinet considered a report which stated that the existing Highways Maintenance Term Contract was due to terminate in August 2007. Arrangements for the negotiation of and signing a new contract between the Council and Alfred McAlpine were now approaching a conclusion. At the time of preparing the report, it was anticipated that signing of the contract would take place on Wednesday 18 July 2007. There were a comparatively small number of issues that would need to be resolved with Alfred McAlpine to the Council's satisfaction before the contract was finally signed. Where appropriate, these were referred to in the report.

Options Considered

To extend the current contract by 12 months and then procure a new contract. This option would not realise the benefits to be gained by entering into a new Partnership contract.

Decision

1. That, subject to satisfactory resolution of any outstanding issues to approve the Council entering into the Highways Maintenance Term Contract with Alfred McAlpine Government Services Limited.
2. That, the appropriate officers be authorised to resolve any outstanding issues, in order that those issues could be incorporated within the Contract as necessary without a requirement to submit a further report to Council Cabinet.
3. That should those issues not be resolved to the satisfaction of officers acting on behalf of the Council, arrangements for signing the contract should not be concluded, and
4. That a further report be presented to Council Cabinet at the earliest possible meeting.

Reasons

1. To ensure that the Council had a term contract that delivered best value for money.
2. Everything possible should be done to minimise the risk of delays in signing of the contract, in order to contain the Council's costs and help to ensure implementation of the Project in accordance with the Project Plan and Timetable.
3. The nature of this Project meant that sustaining progress with implementation could be dependent upon seasonal and associated weather conditions. Any delays at this stage could therefore be compounded and extended in subsequent stages of the Project, thereby delaying the benefits to the residents of the City. END

- 2.4 The new contract was the subject of a report to the Audit and Accounts Committee on 12 December 2007, accessible through this link:
<http://cmis.derby.gov.uk/CMISWebPublic/Binary.ashx?Document=10418>

The associated minute was:

42/07 Highways Maintenance Team Contract

The Committee considered a presentation led by the Assistant Director of Highways and Transport on the Highways Maintenance Term Contract and the contract manager from Balfour Beatty, the Council's new contractor. The actions that were being taken to improve the management and delivery were noted.

It was noted that an audit was being carried out on the contract and that a further report would be brought back to the Committee in 12 months time.

Resolved to note the presentation.

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| For more information contact: | Rob Davison 01332 255596 e-mail rob.davison@derby.gov.uk |
| Background papers: | None |
| List of appendices: | Appendix 1 – Implications Appendix 2 – Extract from report to the Audit & Accounts Committee on 24 September 2008 |

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| IMPLICATIONS |
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Financial

- 1.1 None directly arising from this report

Legal

- 2.1 None directly arising from this report

Personnel

- 3.1 None directly arising from this report

Equalities Impact

- 4.1 None directly arising

Corporate objectives and priorities for change

- 5.1 The issue relates to 'Giving You Excellent Services and Value for Money'

REPORT – EXTRACT ONLY

AUDIT AND ACCOUNTS
COMMITTEE

24 SEPTEMBER 2008

Report of the Head of Audit and
Risk Management**INTERNAL AUDIT – PROGRESS REPORT 2008/9**Appendix 4 [*as referenced on 24 September*]**Summary of Audits Finalised during period 1 April 2008 to 31 May 2008 (Excluding Investigations)****Introduction**

The main findings in final audit reports issued are summarised below. It should be noted that this summary comments on key weaknesses found, as this is the focus of the recommendations. The full audit reports give a more rounded picture of the overall control environment, and to appreciate this broader picture, members should also take note of the overall control rating and the controls that were tested and found to be adequate.

Regeneration & Community**Contract Partnership: Inner Ring Road Integrated Maintenance Scheme (IRRIMS)**

[omitted]

Highways Maintenance Term Contract - Partnership***Overall control rating: Satisfactory***

The audit review sought to check controls in place that ensure that agreed governance arrangements were being adhered to, payment options were being applied correctly and payments were being properly authorised, works orders were valid and properly authorised and financial and operational performance was reported and monitored regularly.

There was evidence of the proposed framework for managing delivery of the service and assurances were received from management that the monitoring structures put in place were operating satisfactorily.

Minutes of monthly meetings held by the Partnership Board, to discuss financial and operational aspects of performance were available for review. It was noted that discussions were held around the possibility of costs exceeding the forecast expenditure for 2007/08.

At the time of the audit, there was no available performance information on which to assess performance and base the contractor's charge for overheads. This issue was highlighted by the Partnership Board, who set a target date for provision of the data by the contractor.

In relation to works management and monitoring, a review of a sample of works orders and payments highlighted nothing unusual. The Contracts Manager was not able to confirm that the officers raising and authorising the various values of works orders had been formally approved to do so.

However, a budget overspend was identified in the area, which cast doubts as to the robustness of the works and budget monitoring system. Accordingly, we planned to undertake further work to establish the adequacy of controls in the area (see below)

Highways Maintenance Term Contract - Overspend 2007-8

Overall control rating: N/A

An unexpected overspend of just over £500,000 was identified within the Highways division 8 months into the contract, of which £311,000 was attributed to this Term contract. Accordingly, the Corporate Director – Resources requested that Internal Audit look into this matter.

Our review was intended to cover the following:

- To establish the causes/ reasons for the overspend with a view to strengthening control weaknesses that allowed it to happen
- To work with relevant managers to design a reporting framework that will alert managers earlier, where spend was diverging from plan, to enable prompt corrective action.

In the event, the Assistant Director, Highways and Transport commissioned her own investigation into the matter and she produced a comprehensive briefing note for officers prior to the Council Cabinet meeting on 29 July 2008. The findings and proposed actions detailed in this briefing note addressed all of the objectives of the proposed Audit review.

In consultation with the Corporate Director – Resources it was agreed that the proposed audit review was no longer necessary. Both Internal Audit and the Corporate Director – Resources were satisfied with the veracity of the Assistant Director, Highways and Transport investigation and the actions proposed to rectify the situation.