

## CABINET ITEM COVERING SHEET PROFORMA

**AGENDA ITEM**

**REPORT TO CABINET**

**17 MAY 2012**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

### **CABINET DECISION**

**Regeneration & Transport – Lead Cabinet Member – Councillor Mike Smith**

#### **HIGHWAYS TASK & FINISH REVIEW**

1. Summary

This report considers the final conclusions of the Highways Task and Finish Review, an Officer led review that was undertaken as part of the Council's year 3 EIT programme. The review reported progress into the Regeneration and Transport Select Committee during the course of 2011/12, concluding with the Select Committee agreeing final recommendations to Cabinet in March 2012.

2. Recommendations

It is recommended that Cabinet approve the efficiency opportunities identified within this review be achieved by the following mechanisms:

1. A target saving of approximately £150K will be achieved in the structural maintenance budget which is used for major resurfacing works by external contractors.
2. A target saving of approximately £150K will be achieved in the scheduled maintenance budget which is delivered by Direct Services and targets footpath resurfacing schemes and structural patching of the highway.
3. A target saving of approximately £100K will be achieved in the inspection and management costs associated with delivering highway services across Technical and Direct Services.
4. In addition further target savings of approximately £100K will be considered in the areas of bridge maintenance (including the Transporter Bridge), vehicles, specialist surfacing operations, bus shelter maintenance and responsive core maintenance work.
5. £25K reduction from the core maintenance work programme which is delivered by Direct Services and targets responsive repairs to pot holes and defects.
6. That a business case for 'invest to save' opportunities associate with Highway revenue spend is explored as part of the Council's Value for Money Programme.

### 3. Reasons for the Recommendations/Decision(s)

As part of the Council's EIT programme a review of highway related services has been carried out to identify opportunities for efficiencies in revenue support. The review has concluded the opportunity to save around £500K per annum if the above recommendations are implemented.

### 4. Members' Interests

Members (including co-opted Members with voting rights) should consider whether they have a personal interest in the item as defined in the Council's code of conduct (**paragraph 8**) and, if so, declare the existence and nature of that interest in accordance with paragraph 9 of the code.

Where a Member regards him/herself as having a personal interest in the item, he/she must then consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest (**paragraphs 10 and 11 of the code of conduct**).

A Member with a prejudicial interest in any matter must withdraw from the room where the meeting considering the business is being held -

- in a case where the Member is attending a meeting (including a meeting of a select committee) but only for the purpose of making representations, answering questions or giving evidence, provided the public are also allowed to attend the meeting for the same purpose whether under statutory right or otherwise, immediately after making representations, answering questions or giving evidence as the case may be;
- in any other case, whenever it becomes apparent that the business is being considered at the meeting;

and must not exercise executive functions in relation to the matter and not seek improperly to influence the decision about the matter (**paragraph 12 of the Code**).

**Further to the above, it should be noted that any Member attending a meeting of Cabinet, Select Committee etc; whether or not they are a Member of the Cabinet or Select Committee concerned, must declare any personal interest which they have in the business being considered at the meeting (unless the interest arises solely from the Member's membership of, or position of control or management on any other body to which the Member was appointed or nominated by the Council, or on any other body exercising functions of a public nature, when the interest only needs to be declared if and when the Member speaks on the matter), and if their interest is prejudicial, they must also leave the meeting room, subject to and in accordance with the provisions referred to above.**

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**SUMMARY**

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**RECOMMENDATIONS**

It is recommended that Cabinet approve the efficiency opportunities identified within this review be achieved by the following mechanisms:

1. A target saving of approximately £150K will be achieved in the structural maintenance budget which is used for major resurfacing works by external contractors.
2. A target saving of approximately £150K will be achieved in the scheduled maintenance budget which is delivered by Direct Services and targets footpath resurfacing schemes and structural patching of the highway.
3. A target saving of approximately £100K will be achieved in the inspection and management costs associated with delivering highway services across Technical and Direct Services.
4. In addition further target savings of approximately £100K will be considered in the areas of bridge maintenance (including the Transporter Bridge), vehicles, specialist surfacing operations, bus shelter maintenance and responsive core maintenance work.
5. £25K reduction from the core maintenance work programme which is delivered by Direct Services and targets responsive repairs to pot holes and defects.
6. That a business case for 'invest to save' opportunities associate with Highway revenue spend is explored as part of the Council's Value for Money Programme.

**DETAIL**

1. The Highways Task & Finish Review was identified as an officer led review as part of the Council's EIT programme. The baseline was originally presented to the Highways R&T Select Committee on 20 December 2010. However, early baseline work extended the review into year 3 (2011/12) and was then rescheduled to be commenced in the second half of the 2011/12 review period. Due to the changes in the Committee structures after the

local Elections the baseline was re-presented to the new Regeneration & Transport Select Committee on 14 November 2011.

2. A full set of the reports presented to Regeneration & Transport Select Committee together with their full appendices are available on E-Genda. The comments gathered from Regeneration & Transport Select Committee are included in this report as **Appendix A**.
3. Therefore the salient points of the content of the review are summarised in the remaining paragraphs of this section.

## **Methodology**

4. A fundamental part of this review has been to unpick the true cost of delivering highway related activities by considering the detailed budget arrangements within both Technical Services and Direct Services, each of which are responsible for various elements of the front end delivery of highway services within the Borough. Members of the Committee were presented with the baseline report which showed the overall expenditure which was close to £9M annually. The delivery of highway services is currently managed using trading account arrangements, which sees those services charged at a commercial rate plus an element of overhead recovery. This overhead recovery is used as an overall matrix to support Council funded services and has evolved over many years, but forms a basis for the management of the Medium Term Financial Plan.
5. The work of the review team considered the individual elements of these budget areas and removed the overhead recovery elements. This was a significant financial exercise, which provided the platform to explore in more detail the opportunities to remove revenue levels from highway related services, which was the core purpose. The reports to R&T Select Committee went through that process in detail.
6. Highway related services receive funding from both Capital and Revenue streams. The Committee we provided information on the different funding streams that enabled the focus to remain on revenue budget areas, where sustainable MTFP efficiencies could be achieved.
7. In terms of the highways budgets for 2011/12 the Authority had allocated £5.153m of revenue resources for the provision of Highways Services. Traditionally budgets have been set up within Highways to reflect a Client/Contractor split in line with the previous Compulsory Competitive Tendering regulations, with Direct Services acting as the contractor to Technical Services. This arrangement requires Direct Services to recover direct costs (labour and materials) and overheads (central support and depots), through an internal recharge mechanism.
8. Turning to the mechanism of the highway budgets, over the last few years the Authority has aimed to maximise efficiency by reducing internal recharging mechanisms. With this in mind a review of how the current budgets within Highways are set up has been undertaken. The aims were to eliminate where applicable the inefficient process of internal charging, to give transparency on how the £5.153m is allocated and to aid management decision making. If internal charging was to be eliminated the Highways budgets would be set out as shown in **Appendix B**.

9. This revised format allowed the review team to target areas where efficiencies could be made without the issue being clouded by an internal trading mechanism.

## Scope

10. In addition to the services that are provided in-house, major maintenance and carriageway resurfacing is carried out by an external contractor due to the specialist nature of the works. In Stockton this is currently Tarmac Surfacing Ltd and a mixture of LTP capital and SBC revenue is directed towards Tarmac for resurfacing activities. The amount of major maintenance and resurfacing compared to unscheduled maintenance and footpath repairs can vary year on year depending on how the assets perform. What is critical is that the Council retains the ability to make decisions around where investment in the highway infrastructure is most needed. The new way of controlling budget areas as a result of this review, have retained the flexibility to have a mechanism to vary the amounts of expenditure between external resurfacing works and internal unscheduled maintenance activities without having a detrimental impact on internal resource levels.
11. The main financial summary table, included here as **Appendix B** shows the distribution of key budget headings including the core work which is a minimum to maintain a safe highway network including contributions for vehicles and the cost of employees. There are other elements of funding such as winter maintenance, bridges and structures and unscheduled maintenance that remain relatively fixed in order to react positively to highway maintenance backlogs
12. A summary description of the key budget heading areas was presented to the Committee as follows:
- Core work – this section is all of the unscheduled maintenance activities that are required to maintain the highway and includes potholes, repairs and replacement to signs and street furniture as necessary. Responses to road traffic collisions and knock down of street lights and trees is also an important part of this area. There are 18 operational employees associated with these activities on average.
  - Inspection and management – within this area there are 4 highway inspectors who are each responsible for zonal areas of the Borough ensuring that the statutory responsibilities for highway inspections are carried out. In addition the supervisors of the operational employees sit within this budget heading. The liveability technicians are also identified within this area and they pick up more general queries and identify issues raised by Members and members of the public. They do also have responsibilities that cut across general care for your area activities.
  - Winter maintenance – within this budget heading there are salary costs identified which are predominately standby payments and allowances associated with existing staff working additional hours for road salting operations. In addition the cost of vehicles, maintenance and the purchase of rock salt are contained within this budget heading. The costs incurred do of course vary depending on the severity of winters however, recently two successive bad winters have placed additional strain on the medium term financial plan in this area. When mild winters are encountered any surplus resources are directed to upgrading the gritting fleet or the purchase of additional rock salt.

- Scheduled maintenance – the activities associated with this area are planned maintenance operations which are delivered in-house by Direct Services. These predominantly include footpath repair and replacement schemes and structural patching to carriageways. This area of work is resourced by Care For Your Area operational staff and supplemented by support from agency workers. Variations to the budget in this area can be adapted to by a reduction in agency staff and then if necessary a reduction in permanent staff. There is a direct correlation between the number of staff and the associated inspection and management support and any reductions in this area would need to consider the impact on management and supervision costs.
- Capital/Variable works – this budget area concerns direct services and the income that they receive from carrying out works funded from capital sources such as the Local Transport Plan, Playbuilder, community participation budget, parks and memorials are just some of the examples. The fundamental issue with this area of the budget is that in order to balance the medium term financial plan across the Authority, Direct Services must secure an income to the value of £1.585M. Without this income level an immediate pressure is placed upon the Council's MTFP. The workload associated with this area is extremely variable and with recent reductions in both the Local Transport Plan and playbuilder this places a significant pressure on Direct Services' ability to meet this income target. Any reductions that are identified in the highways revenue budget are not related to this area and a resolution to the issue of Direct Services achieving this annual target is a separate matter which must be addressed.
- Bridges and structures – this area is the revenue allocation made available to ensure that all of the Authority's 327 bridges are regularly inspected and maintained to ensure that we meet our statutory obligations of a safe highway. There is only one full time member of staff associated with these activities with some reliance on specialist consultants for particular aspects of inspection and design. The remaining funding is then targeted towards physical works to maintain and improve the bridge stock.
- General maintenance – this is a small area of budget which is allocated to adhoc general repairs that fall outside of the core work elements described above.
- Private developers – this budget heading has cost associated with the inspection and testing of new highways that are built as a result of new developments which are predominantly housing or industrial. Under Section 38 of the Highways Act the Highways Authority must inspect such works to ensure they are satisfied they have been constructed to an adoptable standard. There is currently two members of staff engaged as only part of their role on these activities but additional costs are incurred as a result of materials sampling and testing that is required. There is an income stream associated with this process however, with the current state of the development market this is not in a healthy position yet the fixed costs of staff and material sampling do still apply.
- Winter maintenance policy – costs associated with this budget area are for approximately one third of one staff member and the remainder of the costs in this area are associated with the provision of meteorological services and equipment for which there is a standing annual charge.

- Structural maintenance – this budget area is a significant element of the highway maintenance portfolio and relates to the major maintenance and resurfacing operations which are carried out by our external partner Tarmac. Clearly resurfacing and major maintenance covers large areas of highway using oil based products and therefore the cost base is high and biased towards material costs. The key benefit to this treatment is that mass areas of carriageway are replaced therefore improving the long term condition and aesthetics. One key point to note is that some of the staff resources within this area also direct capital investment associated with the LTP and street lighting operations but the costs associated with them are shown in this budget area.

## Efficiency Opportunities

13. An appraisal of the budget headings that have been set out above was considered to ensure that efficiency opportunities were targeted effectively. The Committee were particularly interested in the cause and effect of the efficiency identified and the table below summarised that which was presented.

Budget Reduction Area	Implications of Reduction	Comment
A target saving of approximately £150K will be achieved in the structural maintenance budget which is used for major resurfacing works by external contractors.	Structural maintenance targets major resurfacing operations that help to reduce the backlog of maintenance and improve the condition of the asset. The reduction in structural maintenance activities will result in less roads that will receive major resurfacing treatment and those areas of highway that do not receive treatment will continue to deteriorate.	The main purpose of highway maintenance is to maintain the highway network for the safe and convenient movement of people and goods. The core objectives of highway maintenance are to deliver a safe, serviceable and sustainable network taking into account the need to contribute to the wider objectives of asset management, integrated transport, corporate policy and continuous improvement.
A target saving of approximately £150K will be achieved in the scheduled maintenance budget which is delivered by Direct Services and targets footpath resurfacing schemes and structural patching of the highway.	The scheduled maintenance budget is targeted towards larger patch repairs on those highway assets that do not require full resurfacing. A reduction in funding towards scheduled maintenance will reduce the ability to patch those roads and their deterioration will continue to accelerate increasing the burden on the need to carry out more comprehensive maintenance such as full resurfacing or reconstruction.	These principles of the code of good practice for the highway network around the three key themes aim to:  <b><u>Network Safety</u></b> <ul style="list-style-type: none"> <li>• Complying with statutory obligations</li> <li>• Meeting users' needs for safety</li> </ul> <b><u>Network Serviceability</u></b> <ul style="list-style-type: none"> <li>• Ensuring availability</li> <li>• Achieving integrity</li> <li>• Maintaining reliability</li> </ul>
A target saving of	In the short term a reduction	

<p>approximately £100K will be achieved in the inspection and management costs associated with delivering highway services across Technical and Direct Services.</p>	<p>in inspection and management is achievable as staffing numbers are consolidated through retirements and people leaving. Direct Services will need to consider carefully their structure to ensure that statutory inspection levels continue at the appropriate frequency.</p>	<ul style="list-style-type: none"> <li>• Enhancing condition</li> </ul> <p><b><u>Network Sustainability</u></b></p> <ul style="list-style-type: none"> <li>• Minimising cost over time</li> <li>• Maximising value to the community</li> <li>• Maximising environmental contribution</li> </ul>
<p>In addition further target savings of approximately £100K will be considered in the areas of bridge maintenance (including the Transporter Bridge), vehicles, specialist surfacing operations, bus shelter maintenance and responsive core maintenance work.</p>	<p>A number of reductions across these smaller budgetary areas will have a direct impact on the condition of the highway asset, perhaps with the exception of vehicles which is somewhat directly related to the reductions in operational employees which is due to reduce as a result of this review.</p> <p>Activities such as bridge maintenance and bus shelter maintenance will undoubtedly lead to a greater reliance on existing resources and reducing the frequency at which these assets are maintained regularly.</p>	<p>There are a number of generic negative effects of the highway services budget reductions, namely:</p> <ul style="list-style-type: none"> <li>• Asset condition continues to deteriorate (GRC/DRC)</li> <li>• Long term damage requiring more expensive remedial action/repair</li> <li>• Customer satisfaction levels with the highway maintenance service deteriorate</li> <li>• General appearance/aesthetics</li> </ul>

14. The Committee approved the recommendations presented in this report to Cabinet but in addition requested that opportunities for 'invest to save' associated with highway revenue operations be explored by Officers as part of the Council's continuing Value for Money Programme. Therefore, in addition to the recommendations supported by the Committee, an additional one (recommendation 6 of this report) has been included for Cabinet's consideration.

**FINANCIAL IMPLICATIONS**

15. As part of the EIT programme the savings identified within this review are being considered and included as part of the Council's overall medium term financial plan.

**LEGAL IMPLICATIONS**

16. The Council as Highway Authority have a statutory duty to maintain the highway in a safe condition. The savings that have been considered as part of this review still retain the ability for the Council to discharge its duties as Highway Authority.



## **RISK ASSESSMENT**

17. The Highways Task & Finish Review is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

## **SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS**

### **Economic Regeneration and Transport**

18. One of the key Council objectives is to maintain a safe and efficient highway network. A key part of this is the maintenance of the assets to ensure that they can perform to the highest standard.

### **Children and Young People**

19. A safe highway that provides access to education and employment is essential to support children and young people.

### **Healthier Communities and Adults**

20. All areas of the community rely on a safe highway network and a highway in good condition reduces injury accidents that can often be associated with poor condition of highway assets.

### **Environment and Housing**

21. A well maintained highway contributes widely to the environment in which residents live and improves the street scene overall.

## **EQUALITIES IMPACT ASSESSMENT**

22. This report is not subject to an Equality Impact Assessment because the content of the review focuses on existing systems of work.

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Education related?

No.

Background Papers

Report to Regeneration & Transport Select Committee 14 November 2011

Report to Regeneration & Transport Select Committee 13 February 2012

Report to Regeneration & Transport Select Committee 19 March 2012

Ward(s) and Ward Councillors:

All

Property

N/A