

# **EAST AYRSHIRE COUNCIL**

## **DEVELOPMENT SERVICES COMMITTEE – 15 JANUARY 2003**

### **STREETLIGHT MAINTENANCE CONTRACT**

#### **Report by Director of Development Services**

## **1 PURPOSE OF REPORT**

- 1.1** To advise the Committee of the outcome of an internal review of arrangements for Streetlight maintenance and to recommend that an in-house Streetlight maintenance unit is established.

## **2 BACKGROUND**

- 2.1** Since the Council has been established streetlight maintenance has been contracted out to Inframan Limited, formerly Hyder and before that BEI Lighting. This arrangement goes back to 1989 when the former Regional Council subjected streetlight maintenance to competitive tender. The current contract was put in place in 1 April 1997 following a competitive tendering exercise. The contract has been extended to 31 March 2003 to allow time for an assessment of options for future arrangements to be carried out. The current budget for streetlight maintenance is £478,000.
- 2.2** Since the internal review was started Inframan has gone into administration, as reported to the Emergency Powers Committee. This Committee agreed on 18 December 2002 a contingency plan for setting up a temporary streetlight maintenance unit if required to maintain continuity of service. This was to be triggered if Inframan went into liquidation, failed on its contractual obligations, or proposed to assign the contract to another contractor who would not be acceptable to the Council. It was explained to the Emergency Powers Committee that the work carried out through the internal review on the feasibility of an in-house operation offered some confidence that such an operation could be set up in a short space of time and would be cost effective. The Committee was also advised, however, that a full report would be submitted to the Development Services Committee before a decision was taken on whether an in-house operation would offer best value as a permanent arrangement.
- 2.3** Within the last week the Council has been informed that Inframan has been bought out by Stiell, a subsidiary of McAlpine. Given that the new contractor is a substantial company and has taken over the contractual obligations of Inframan it now appears likely that emergency action will be required. But the opportunity to establish new arrangements for streetlight maintenance after 1 April remains.

**2.4** The majority of roads authorities within Scotland have retained an in-house streetlight maintenance unit. Only 8 authorities have contracted out streetlight maintenance – all are within the former Strathclyde Regional Council area. Other authorities are currently considering bringing the service back in-house.

### **3 RELATIONSHIP BETWEEN THE STREETLIGHT MAINTENANCE CONTRACT AND OTHER LIGHTING FUNCTIONS OF THE ROADS DIVISION**

**3.1** The lighting functions of the Roads Division can be analysed in three categories:

- ◆ Programme management and "client side" functions
- ◆ Inspection, fault reporting and contract monitoring
- ◆ Contractual work

**3.2** The contractual work covers replacement of lamps, replacement of columns, correction of electrical faults, general column maintenance, and upgrading projects for sections of streetlighting. The principal lighting maintenance contract covers routine replacement of lamps, luminaires, columns and electrical faults. It includes both a fault response service and programmed maintenance. The programmed maintenance includes inspection of the integrity of installations. It does not include inspection or public fault reporting arrangements. The latter are undertaken by in-house staff. Upgrade contracts are tendered on a separate project basis.

**3.3** Instructions are notified by the in-house staff to the contractor on an electronic basis. Instructions, programme monitoring, and contract accounting area recorded through a special software system – Hilight. Hilight has been installed by the in-house staff – contractors are required to work with this system.

**3.4** The establishment of the in-house unit is currently 7 persons. Night time inspections for dark lights are undertaken by 5 lighting staff supplemented by inspections undertaken by 5 street inspectors.

### **4 FORM OF CONTRACT**

**4.1** Two distinct approaches are taken by different authorities to routine maintenance:

- ◆ Lamps may be left to burn out, with replacement undertaken on the basis of inspections or fault reports
- ◆ Lamps may be replaced on a regular programme basis

These two approaches may be associated with different approaches to performance monitoring:

- ◆ Speed of response to reports of lights not working
- ◆ The proportion of lights which are not working at any given time

- 4.2 Current maintenance arrangements in East Ayrshire are based on responsive replacement of lamps and monitoring of response times. Inspection and fault reporting arrangements are geared to this policy. Programmed replacement of lamps is commonly associated with an indicator reflecting the proportion of lights operating at any one time. This would require a different inspection system. It tends to be associated with longer response time to individual light failures and has not been considered to provide as high a level of service as cost effectively as the current policy. This is the view of the Audit Commission based on an analysis of the costs and benefits of the two approaches. It is concluded that the Council should continue with a maintenance system based on responsive fault repair (combined with programmed column and luminaire replacement).
- 4.3 The line between the "client" unit and the contractor could be drawn at a different point.
- ◆ Inspection and fault reporting could be contracted out. It would be left to the contractor how to provide the highest level of performance. This might be achieved through a variety of inspection regimes or a greater emphasis on programmed lamp replacement.
  - ◆ Alternatively, in an in-house operation the contractual unit could be fully integrated into the existing management unit with "street operatives" taking their instructions direct from unit managers and responding directly to fault reports.
- 4.4 The first of these arrangements fits best with a programmed rather than responsive approach. It may also be linked to an 'output performance contract' in place of a traditional bill of quantities. It is less suitable for a responsive repair approach as is proposed.
- 4.5 It is further considered that the second of these alternatives has advantages: simplified communications, flexibility in arrangements for inspections and policy on lamp replacement, reductions in overheads to maintain a "client – contractor" interface. It would, however, be necessary to ensure that the integrity and independence of the monitoring function be retained within the Roads Division.

## 5 PROPOSAL FOR AN IN-HOUSE MAINTENANCE UNIT

- 5.1 **Operational Arrangement:** If an in-house operation were established it is proposed to use the former blacksmith's workshop at the Crookedholm Depot. This would be suitable with, in the first instance, limited upgrade. The principal requirement would be to install toilet accommodation, which could be achieved through the use of temporary modules. It is well located and secure. There would be no additional property overhead costs to the Council – these would be shared with the Transport Services Unit – a spin-off benefit would be that the Transport Services Unit's overheads would be reduced.

- 5.2 Plant:** Four vehicles with platform lifts would be required plus one additional van. These would be leased and maintained by the Transport Services Unit – another advantage of location at the Crookedholm Depot. The Transport Services Unit would be in a position to provide back-up replacement for the van. Roads Contracts already has a suitable vehicle for erection of lighting columns. No other major items of plant or equipment would be required.
- 5.3 Staffing:** The additional staffing required would be: 4 electricians, one superintendent, a storeman, and one additional administration post. Consideration would also be given to regrading of two of the existing posts within the unit to reflect the additional responsibilities.
- 5.4 Costs:** A full operating cost budget has been drawn up. This indicates that it may be possible to make a small operational saving against the current budget. This reduction would reflect the simplification of the reporting structure and the elimination of a contractor's management overheads and profit return. The costs are based on exactly the same staffing and plant as used by the current contractor.
- 5.5** The initial capital costs would be limited. Further upgrade of the depot might be required in due course. Indicative costs are that up to £100,000 may be needed for major maintenance and upgrade of the quality of the facility.

## **6 BEST VALUE**

- 6.1** From the competitive assessment set out below at para 7.2 there is evidence that the budget estimates for undertaking the service will be competitive with private contractors' prices.
- 6.2** All the performance standards set out in the current contract could be applied to an in-house arrangement. There is the potential to improve on current performance times by cutting out some stages in the communication of fault reports to the "street operatives".
- 6.3** If an in-house arrangement were approved by the Committee it would be proposed to establish a benchmarking agreement with other lighting authorities, including authorities with in-house units and externally contracted operations. Methods of benchmarking with private contractors will also be investigated in conjunction with other authorities.
- 6.4** Performance and benchmarks will be subject to annual review as set out in section 8 below.

## **7 COMPARISON OF CONTRACTING OPTIONS**

- 7.1** The principal contracting options are:
- ◆ To invite competitive tenders without an in-house bid
  - ◆ To invite competitive tenders with an in-house bid
  - ◆ Establish an in-house unit without competitive tendering

- ◆ Investigate a partnering arrangement with a private contractor

## **7.2 Competition assessment**

- 7.2.1** The budget proposed for an in-house operation shows that a unit could be operated with overhead costs of 15% of total direct costs, and 40% of direct labour costs. This compares very favourably with norms for the construction industry. The low marginal overhead associated with an in-house unit can be explained by the potential for sharing facilities with the Transport Services Unit and the proposed integration of the operation into the existing "client" and monitoring unit within the Roads Division.
- 7.2.2** Given that the direct labour proposed is the same as the current contractor utilises it is unlikely that a contractor could offer contract prices which were any lower, unless they were able to achieve higher discounts on purchases of supplies or offered to undertake the contract as a "loss leader" in order to obtain contracts on upgrade work or other contracts with East Ayrshire Council. Investigation of prices at which the Council could obtain supplies indicates that competitive discounts could be arranged. Unless the Council were prepared to consider a term contract including upgrade work it is unlikely that this would be a significant commercial factor in determining contract prices for the routine maintenance work.
- 7.2.3** The current financial difficulties faced by Inframan reflect a continuing rationalisation within the industry. A competitive tendering exercise might attract only limited interest from potential contractors.

## **7.3 Risk Assessment**

- 7.3.1** Inframan itself has gone through four phases of ownership within the current contract period. A number of competitive businesses are also facing current financial difficulties and are the subject to takeovers or mergers. There will be a risk of further discontinuities in any new contract arrangements.
- 7.3.2** Assessment of risks associated with alternative arrangements should give weight to ensuring that the Council could be confident of continuity of service. Streetlight maintenance is essential for public safety. Even a short intermission in services could have serious consequences. With an in-house operation, even if there was a temporary reduction in the number of operatives, could be maintained at a satisfactory level to cover short-term periods at all times. There is a greater risk with an external contract arrangement that services could be totally lost for a period were an external company to go into liquidation or default on the contract. Under current circumstances it may be difficult to find an alternative contractor at very short notice.
- 7.3.3** The principal risks associated with an in-house operation would be:
- ◆ Failure to maintain best value

- ◆ Difficulty in recruitment and retention of key staff, particularly experienced electricians

The first of these risks would be covered by maintaining a rigorous monitoring programme. In relation to the second risk it is believed that the electricians currently employed by Inframan would be prepared to transfer to the Council and that the Council would be in a position to offer competitive conditions of service. In the longer term the Council might require to consider an investment in training to ensure that it did not totally depend on external recruitment. The Council could also offer career development opportunities for advancement to technical officer and engineer grades.

#### **7.4 Assessment of contracting options**

**7.4.1** It is concluded that an in-house unit could offer best value and at the same time a lower risk of discontinuity than an external contractor. For these reasons it is recommended that the Council does not proceed with a competitive tendering exercise at this stage with or without an in-house bid.

**7.4.2** A partnering arrangement would be designed to secure greater economies of scale or gain access to private sector management expertise or technology. It is considered that the economies of scale that can be achieved through integration of the routine maintenance operations into the current unit are likely to outweigh economies of scale which can be derived from partnership with other areas or a private contractor. The current staff in the lighting unit also have adequate access to technical information and information about new innovations. It is concluded that there are no very obvious advantages to be derived from a partnering arrangement at present.

### **8 SERVICE LEVEL AGREEMENT AND BUSINESS PLAN**

**8.1** To comply with legislative and financial reporting requirements a full trading account will be set up. Income will be transferred on the basis of 13 monthly payments on an annually agreed price for routine maintenance work. Column and luminaire replacement will be paid for at cost plus agreed overheads. It is not proposed to retain a detailed schedule of measured rates. These financial arrangements will be set out in an internal Service Level Agreement which will be submitted to Committee for approval. The Agreement will incorporate a best value statement setting out performance targets, benchmarks and monitoring arrangements. It will be reviewed annually by a senior officer of the Roads Division not directly involved in the streetlighting unit, together with the Finance Manager.

**8.2** If the Committee approves the establishment of an in-house operation a full business plan and operational statement will be drawn up for approval by the Committee for the 2003/04 financial year. This will include:

- ◆ An operational plan setting out roles and responsibilities of staff within the unit, reporting lines, and resources to be deployed

- ◆ A best value statement setting out targets, benchmarking arrangements, and monitoring and performance reporting arrangements
- ◆ A full operating budget
- ◆ A full risk analysis including contingency arrangements to avoid any discontinuity in service
- ◆ An action plan to develop and improve the new integrated service

The Business Plan will be subject to annual review.

- 8.3** The annual reviews of both Service Level Agreement and the Business Plan will be reported to Committee.

## **9 TIMETABLE FOR IMPLEMENTATION**

- 9.1** The contingency plan approved by the emergency Powers Committee gave authority to the establishment of an in-house unit if Inframan goes into liquidation or defaults on its current contract. If the current contract service is maintained, however, it will be proposed to negotiate for the planned transfer of staff to the proposed in-house unit together with a date for releasing Inframan from its current contract. The current contract runs until 31 March 2003. The latest date at which an in-house unit would be operational will, therefore, be 1 April 2003. Depending on the outcome of negotiations with Inframan an earlier start date is possible.

## **10 FINANCIAL IMPLICATIONS**

- 10.1** The budget proposed for the in-house unit is the same as the current budget for streetlight maintenance. As noted above there is the potential for some operational savings against current budget will be the subject of further assessment. Any capital investment requirements will be brought forward for consideration of the Committee in the context of future years' capital programmes.

## **11 PERSONNEL IMPLICATIONS**

- 11.1** A separate report on the recommended conditions of service for the additional staff and operatives will be submitted to the Corporate Services Sub-Committee. There has been initial discussion with the Head of Personnel Services who does not consider that there are any issues of principle in relation to establishing appropriate terms and conditions.
- 11.2** If a negotiated transfer of staff is agreed with Inframan there will be no requirement to undertake a competitive recruitment process. If agreement cannot be reached and the staff decide to stay with Inframan rather than exercise their rights under TUPE transfer to the Council a recruitment exercise will be required. It will, however, be necessary to reach an agreement with Inframan and the staff concerned at an early stage since

there could be difficulties in establishing an in-house unit if key staff are unwilling to transfer to the Council. In this event a further report will be submitted to the Committee setting out alternative action proposals.

## **12 LEGAL IMPLICATIONS**

- 12.1** In terms of the existing statutory provisions incumbent upon the Council, it will be necessary to set up the proposed unit with a full trading account. The Local Government in Scotland Bill (which is due to have its Stage 3 reading early in the New Year) does contain draft provisions which may in due course negate this requirement. However, until such times as the Bill is promulgated into statute and appropriate guidance issued on the interpretation of the new provisions, the current requirements will prevail.
- 12.2** In terms of the Government's Statement of Practice relating to staff transfers in the public sector (January 2000) it is likely that the transfer of the streetlighting maintenance function in-house would be TUPE related transfer. Accordingly the current contractor's relevant workforce would have a statutory right to have their contracts of employment transferred to the Council as detailed in para 11.2 above.

## **13 RECOMMENDATIONS**

- 13.1** It is recommended that the Committee:
- (a) agrees to bringing in-house the streetlight maintenance services currently contracted out;
  - (b) notes that a full trading account will be established;
  - (c) notes that the terms and conditions of the staff employed by the unit will be subject of a report to the Policy & Resources Corporate Services Sub-Committee;
  - (d) notes that a service level agreement and a full business plan and operational statement will be submitted to the Committee for approval prior to the start of the financial year 2003/04; and
  - (e) notes that an annual review will be submitted to the Committee reporting on performance levels achieved against targets and updates proposed for the Service Level Agreement and Business Plan.

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SC/JR  
8 January 2003

### **BACKGROUND PAPERS**

**Nil**

For further information on the content of this report, contact Len Paget, Roads & Transportation Division, on 01563 576310

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