

North Somerset Council

Report to the Council

Date of Meeting: 8 November 2022

Subject of Report: Future Highways Contract Service Delivery Model

Town or Parish: All

Officer/Member Presenting: Executive Member for Highways and Transportation

Key Decision: N/A

Reason:

- This is not an executive decision.

Recommendations

1. To progress the highway reactive and cyclical maintenance work package via direct contract award under teckal exemptions to North Somerset Environment Company for an initial term of 7 years commencing 1 April 2024.
2. To deliver highway surfacing, surface dressing and all other elements of the highway maintenance and investment works packages through frameworks and dynamic purchasing systems from 1st April 2024, and to commence competitive tender processes for the delivery of the remaining highway services in early 2023 for:
 - Single Provider Framework – Surfacing
 - Single Provider Framework – Surface Dressing
 - Dynamic Purchasing System – 3 lots, Civils, Structures and Surface Treatments

1. Summary of Report

1.1 North Somerset Council currently contracts delivery of highways maintenance and some investment works to Milestone Infrastructure. The council awarded a 5-year contract in 2018 to Skanska Infrastructure Services, this was novated to Milestone Infrastructure in April 2021 and extended by 12 months, with the current contractual arrangement due to expire on the 31 March 2024.

1.2 In preparation for the end of the contractual term, the highways service has undertaken a comprehensive review of the options available for the future delivery of highways maintenance and investment works to assess the delivery options against the current

and emerging financial situation and the council's strategic priorities. This review commenced in September 2021 and included:

- Review of highways asset management strategy – consultation in early 2022, adoption in August 2022
- Review of 14 possible options for delivery of highways maintenance and investment works
- Shortlisting to 3 options that best fit the council's strategic priorities and financial context
- Detailed due diligence on the three shortlisted options, including alignment with the newly adopted asset management strategy
- Recommendation of a preferred option with full business case

1.3 The shortlisted options were as follows:

1.3.1 Current model – re-tendering the delivery of core maintenance and major works delivered through a single provider

1.3.2 Splitting the current contract - delivering cyclical and reactive maintenance through North Somerset Environment Company (NSEC) (NSC's existing local authority trading company), and a framework and/or dynamic purchasing systems to deliver other highways maintenance and investment works.

1.3.3 Create a new, stand-alone local authority trading company for delivering highways maintenance and investment (this option was discounted)

1.4 The shortlisted options went through a rigorous due diligence process which assessed the strategic, economic, commercial, financial and management case for each. A detailed business case has been produced and has been tested through the council's due diligence process. Alongside this, thorough financial analysis, risk analysis and market testing took place. Detailed options analysis is provided as **Appendix A** to this report, the financial analysis is provided as **Appendix B** and the risk matrix as **Appendix C**.

1.5 The outcome of the analysis showed that the option (1.3.2 above) to split the current contract and deliver cyclical and reactive maintenance through NSEC and to procure two single provider frameworks and implement a dynamic purchasing system (DPS) to deliver the other highways maintenance and investment works was the most beneficial to North Somerset Council. The main benefits of this approach are:

- Overall cost benefit of £5.6m less over the contract term
- Improved social value with increased focus on local employment and local supply chain
- Flexibility on level of investment through frameworks and DPS – no fixed contractual overhead and no minimum spend
- Flexibility to scale up to deliver wider investment programmes as required
- More opportunity to directly test best value and delivery efficiency
- Opportunity, supported by detailed and credible business case, to expand NSEC and deliver business plan outcomes

1.6 Stakeholder engagement has taken place throughout this work, with regular engagement with executive members and the Place scrutiny panel, and opportunities for all members to receive updates. The stakeholder engagement is provided as **Appendix D**.

2. Policy

2.1 The shortlisted models have been assessed against the following strategic aims and priorities set out in the council's corporate plan 2020-2024.

Aims	Priorities	Option 2 alignment
A thriving and sustainable place	<ul style="list-style-type: none"> • To be a carbon neutral council and area by 2030 • A transport network that promotes active, accessible and low carbon travel 	See "Section 7 Climate and Environmental implications"
A council which empowers and cares about people	<ul style="list-style-type: none"> • Partnerships which enhance skills, learning and employment opportunities 	<p>The opportunity to build and develop collaborative and strategic partnerships with NSEC and framework providers</p> <p>There is a genuine interest from the market in working with NSC to understand the councils' priorities and constraints, and bring forward their ideas and innovation to develop the service</p>
An open and enabling organisation	<ul style="list-style-type: none"> • Manage our resources and invest them wisely • Embrace new and emerging technology and make the best use of our data and information • Provide professional, efficient, and effective services • Collaborate with partners to deliver the best outcomes 	<p>NSEC have demonstrated their ability to deliver the service, suggesting a number of areas of added value where they can exceed specification requirements, areas where they can demonstrate quality and compliance with specification, and where they bring technical knowledge and expertise to the submission.</p> <p>All efficiencies for cyclical and reactive maintenance are for the sole benefit of the service, and the company is solely accountable to the council – i.e., HGV drivers, vehicle workshop, shared overheads and staffing capacity.</p> <p>Resilience is improved through a wider pool of resources to support peaks in service (e.g., Significant weather event)</p> <p>NSEC have applied for partner membership with the Local Council Roads Innovation Group (LCRIG) and have brought forward a number of ideas in their quality submission</p>

2.2 The recommended option has its own set of highways service strategic objectives which will guide the delivery of the service. These are as follows:

1. Delivers our statutory duties
2. Provide robust, professional, efficient, and effective services.
3. Deliver best value with the resources available and work towards a financially resilient future.
4. Embrace new and emerging technology and make the best use of available data and information.
5. Partnerships, both internal and external, which enhance skills, learning and employment opportunities.
6. Engage with, empower where appropriate and endeavour to meet the needs of our communities.
7. Work with partners to deliver the best outcomes.
8. A transport network that promotes active, accessible, and low carbon travel and supports the growth agenda.
9. Develop a service that is understanding of social value and actively participates in the delivery of the benefits that it provides.
10. Ensure we meet the transport decarbonisation agenda to support the Council's objective to become a carbon neutral council and area by 2030

3. Details

Introduction

3.1 A well-maintained highway network contributes to the local economy, drives growth, creates local jobs, makes more sustainable methods of transport, such as walking and cycling more attractive options and is vital to achieving North Somerset's corporate goals and objectives to enhance the environment within which our residents live, learn and work.

3.2 Highway and transport assets are the most valuable asset managed by the local authority, and the assets used most extensively by the whole community. In North Somerset the gross replacement cost (GRC) of the assets, namely, carriageway, footway, street lighting, traffic signals, structures and street furniture is estimated to be in excess of £2.3 billion.

3.3 Under the Highways Act 1980, as the local Highway Authority, North Somerset Council has a legal duty to maintain its respective sections of the highway network under section 41. This includes responsibility for maintaining, managing and, where necessary, improving the network. The council achieves this through a combination of reactive, cyclical, and planned works and delivers the plan with a combination of capital and revenue funding and through several different contractual arrangements, with the bulk of the work contained within a contract with Milestone Infrastructure which is due to expire on 31st March 2024. Services delivered through this contract are outlined in the table below:

	Reactive and cyclical maintenance	Capital maintenance	Integrated Transport schemes	Public realm works and active travel schemes

Work undertaken	Pothole repairs and minor patching Gully emptying and drain cleaning including CCTV surveys Minor highway drainage repairs Winter maintenance In-hours and out-of-hours emergency response	Resurface roads, footways and cycleways Surface treatments and highway drainage replacement schemes	Minor works, signing and road marking improvements Local safety schemes	e.g., Town Centre Improvement Schemes e.g., Active travel schemes
Funding	Revenue	Capital	Capital	Capital grant/bids
Value of works	£2.2m	£7.5m	£1m	Scheme dependant

3.4 In September 2021 a project commenced to start to research the future delivery of highways maintenance and investment services as detailed in Table 1 above and to ensure new service arrangements are designed, approved, delivered and are ready to guarantee business continuity from 1 April 2024 onwards, providing the best balance of risk and opportunity to the council moving forward. The project also covered the consultation and adoption of the updated Highways Asset Management Strategy to ensure that future delivery aligned in full to this strategy. The council’s commissioning framework approach was used to ensure that market analysis and understanding the routes to market was undertaken in sufficient detail to select a recommended option for the delivery of the highways service and to enable the work to progress to procurement stage.

Options analysis

3.5 In the initial phase of options analysis, the existing highways service was thoroughly analysed and benchmarked nationally against other local authorities to build on existing good practice, identify best industry practice and to highlight opportunities to further develop the highways maintenance and infrastructure service so that it reflects the future needs and outcomes need in North Somerset.

3.6 Building on this analysis, a full suite of possible delivery options for highways services was generated – which included fully outsourcing all elements to contractors, and bringing all elements of service within the council, and a variety of combinations, partnerships and company models. This long list of options went through a rigorous scoring process that included the executive member, officers and contractors, and scoring took into account cost, viability, deliverability and risk. Some options were too expensive, some had no market viability, and some were unattractive due to risk. The process resulted in a short list of 3 viable and desirable options for North Somerset to take forward into due diligence and options analysis. A summary of the options analysis for the shortlisted options is provided as **Appendix A**.

The NSEC opportunity

3.7 In 2021 the council set up a local authority trading company “North Somerset Environment Company (NSEC)” which has the specific purpose of delivering operational

neighbourhood services on behalf of the council in a way that best aligns with the council's strategic priorities. The business plan for NSEC, which is being ratified by the company shareholder, contains the ambition to expand into the delivery of operational services that complement the company's current core business of delivering the waste and recycling contract for the council.

3.8 It should be noted that the North Somerset contract is small by industry standards. The reactive and cyclical maintenance element of the service is especially unattractive to the commercial market due to the low value and lack of opportunity to be profitable. In the past this has been a limiting factor in highways contracts and has resulted in the requirement for fixed overheads and minimum contractual spend in order to ensure that a contractor will take it on. NSEC offers the council the opportunity to deliver reactive and cyclical maintenance differently, while also aligning well to existing services in NSEC and delivering the needs of local people. The remaining elements of the contract, which don't currently align to NSEC, can remain in the competitive market to drive best value without being limited by cyclical and reactive maintenance.

Business case development

3.9 A detailed business case was developed to analyse the shortlisted three options, and included strategic, economic, commercial, financial and management cases for each of the options. The results of this analysis were as follows:

3.10 The business case clearly shows that delivering the reactive and cyclical maintenance service through NSEC delivers the best financial value, the most social value, the best alignment to the council's strategic priorities and helps to deliver the NSEC business plan. A full NSEC business case for expansion to include this service has also been produced and analysed in tandem with the options analysis work and has been approved by the company board and shareholder.

3.11 The business case also clearly shows an overall significant financial advantage of this option when compared to the single provider option. Over the life of the contract this is estimated to be £5.6m. The key component for this is less reliance on North Somerset Council's own capital resources funded through borrowing estimated at £900k per annum, which will generate revenue savings from cost of capital.

3.12 Engaging directly with the market through frameworks and a DPS will drive competitive rates for delivering the surfacing, surface dressing and other highways maintenance and investment works funded through the capital programme.

3.13 The revenue costs associated with the Highways capital programme are therefore reduced and this saving is used to offset the increase in revenue costs from operating this option.

3.14 However, revenue resources to deliver the new model will need to be enhanced at a cost of £372k per annum in total, partially offset by the savings from capital borrowing.

3.15 The risk analysis doesn't identify a significant additional risk to the council by changing the delivery methodology as the NSEC business case is robust and the regional market for the frameworks and DPS is established and solid. There is a slight advantage in terms of risk in the recommended option as it offers additional financial flexibility in a period of uncertainty.

3.16 Full details of the process undertaken, and analysis is contained within the appendices of this report. These appendices further support the recommendations of this report.

4. Consultation

4.1 The table below identifies the Stakeholders identified for the project and communication completed.

Stakeholder group(s)	Communication purpose (e.g., inform or consult)	Method of communication	Frequency
Project team with project sponsor	Plan, confirm, consult, inform	Stand-up	Weekly
Steering Group (Heads of service)	Confirm, consult, inform	Meeting or email update	At agreed key milestones
Project Board (Senior leadership)	Decision makers, inform	Meeting or email update	Bi-monthly, frequency depends on need
Exec Member briefing (Cllr Hogg)	Confirm, consult, decision maker, inform	Meeting	Weekly opportunity and at agreed key milestones
Place directorate scrutiny panel	Consult, inform	Meeting	At agreed key milestones
Party Group Leaders	Consult, inform	Meeting	At agreed key milestones
Highway and Transport service teams (Team managers and engineers)	Consult, inform	Team meeting, workshop	At agreed key milestones
NSC members (All council)	Consult, inform	E-consult, e-newsletters, briefing documents	At agreed key milestones
Town and Parish Councillors	Consult, inform	E-consult, e-newsletters	Part of the Highway Asset Management refresh
Milestone	Consult, inform	Contract meeting, workshop	Monthly, ad-hoc
Centregreat	Consult, inform	Contract meeting, workshop	Monthly, ad-hoc
Residents	Consult, inform	NHT survey, residents panel, e-newsletters	Part of the Highway Asset Management refresh
Neighbouring authorities	Consult, inform	Colleague meetings, heads of service meetings	Ad-hoc

4.2 A Stakeholder engagement calendar, which sets out the engagement completed with the stakeholders identified above can be found as **Appendix D**. This includes the date, group engaged with and a brief summary of the meeting.

5. Financial Implications

5.1 Full lifecycle costings across a 7-year contract term have been completed for the two options and compared to the current baseline costs. The full details can be found in **Appendix B**.

Costs

5.2 The anticipated costs associated with the recommended option are shown in the table below:

	Average Annual Cost £'000	Anticipated Cost over 7-year contract period £'000
Revenue expenditure (direct highways costs)	£2,335	£16,348
Depot running costs	£55	£383
Additional staffing costs	£302	£2,139
Revenue cost of highways capital	£499	£3,494
Subtotal Revenue	£3,191	£22,364
Capital Expenditure – NSC capital borrowing	£1,600	£11,200
Capital Expenditure – LTP Maintenance & Pothole Fund	£5,011	£35,077
Capital Expenditure – LTP Integrated Transport Scheme	£980	£6,860
Subtotal Capital	£7,591	£53,137
Overall	£10,782	£75,501

5.3 Core Assumptions:

- The borrowing costs have been modelled on 4% MRP and 3.8% interest rate
- This assumes that we continue to invest NSC own capital into highways maintenance, this is not currently approved as part of the capital programme but has been the case for a number of years to ensure we maintain a steady state in the condition of the highways network
- The estimated revenue costs are based on 2022/23 prices, these will need to be inflated in line with inflation, highways inflation is factored into the Medium-Term Financial Plan (MTFP)

Funding

5.4 The current capital strategy assumes we need to invest £7.5m of capital maintenance funding into the Highways network each year to maintain a steady state. The Council currently receives £5m from the DFT through Local Transport Plan Maintenance and Pothole grant funding. This is topped up by borrowing an additional £2.5m.

5.5 The recommended option shows a reduction in the level of funding required reducing the additional borrowing to £1.6m per year. This is due to the Council commissioning directly with tier two contractors through frameworks and a DPS driving the best possible

price and removing the need to pay a tier one contractor a profit margin and overheads. The Council will be able to deliver the same for less.

5.6 It should be noted that this level of capital expenditure is not yet approved from April 2023 onwards, this will need to be integrated into the Council's Capital Strategy. The amount we invest under the recommended option is flexible and this can therefore be reviewed over the contract term.

5.7 The Highways capital borrowing is funded through the revenue capital financing budget. It is estimated that the revenue impact of Highways borrowing will reduce by £1.9m over the contract period. This reduction in revenue will be captured within the MTFP.

5.8 The current base revenue budget for Highways revenue expenditure and the depot running costs is £2.3m per annum. This will need to be increased by revenue growth within the MTFP of £372 per annum from April 2024, over the contract period this totals £2.7m.

5.9 The net revenue impact over the 7-year contract term is therefore an increase of £660k. However, as demonstrated in **Appendix B**, this option presents a total benefit of £5.6m over the life of the contract, with all possible options presenting increases to the MTFP pressures.

5.10 The table below shows the anticipated lifecycle cost of the recommended option compared to the current assumed level of funding:

Financial Year	Recommended Option £'000	Baseline £'000	MTFP Impact £'000
2024/25	£2,842	£2,516	£326
2025/26	£2,942	£2,710	£231
2026/27	£3,066	£2,906	£161
2027/28	£3,191	£3,100	£91
2028/29	£3,316	£3,296	£21
2029/30	£3,441	£3,491	-£50
2030/21	£3,566	£3,685	-£120
TOTAL	£22,359	£21,704	£660

5.11 The net revenue impacts of the recommended option will need to be smoothed in the MTFP over the contract term, this is demonstrated in the table.

6. Legal Powers and Implications

6.1 Under the Highways Act 1980, as the local Highway Authority, North Somerset Council has a legal duty to maintain its respective sections of the highway network under section 41. This includes responsibility for maintaining, managing and, where necessary, improving the network. The council achieves this through a combination of reactive, cyclical, and planned works and delivers the plan with a combination of capital and revenue funding.

6.2 The main purpose of this project is to ensure new service arrangements are designed, approved, delivered and are ready to guarantee business continuity of Highways Maintenance Services from 1 April 2024 onwards.

7. Climate Change and Environmental Implications

7.1 In February 2019 the Council declared a Climate Emergency and an Ecological Emergency in November 2020 and pledged to provide the leadership to enable North Somerset to become carbon neutral by 2030. The Council has an ambition to drive greener change and slow global heating, to keep North Somerset a beautiful place to live for generations to come. Some of our objectives include:

- An overarching goal to become carbon neutral as an organisation and an area by 2030
- Working with our contractors, partners and services providers to support them to reduce their carbon footprint, take advantage of renewable energy sources, consider an electric fleet and reduce their use of single-use plastic
- Encouraging greener choices in local infrastructure, building and planning
- An increase in green and wild spaces, to encourage local wildlife and absorb carbon emissions

7.2 To meet these objectives requires that all possible measures are implemented, rapidly and at scale. By far the largest part of the Council's carbon footprint is from what we procure. The highways contract is currently the Council's second largest contract by value and has a significant carbon footprint. Therefore, it's essential that the highways contract contributes to delivering the Council's carbon reduction target.

7.3 Key objectives of this project and resulting contract can be linked to the Council's procurement strategy.

- Spending decisions that consider and minimise whole life cycle CO2e emissions associated with the delivery of goods, works and services, recognising that in some cases this will need to be reflected in budgets.
- Spending decisions that consider and improve the resilience of Council services and infrastructure, to the impacts of a changing climate.
- Suppliers who embrace the aims of the Council's Environmental Policy, Climate Change Strategy and Climate Emergency declaration and by doing so promote higher environmental standards between businesses and other customers.

8. Risk Management

8.1 Risks are mainly in the areas of service continuity, legislative and regulatory, reputational and health and safety.

8.2 In addition, there are specific procurement risks around the selection of the right suppliers/providers to partner with as well as the risks of inflationary cost increases. These risks are well understood, and the best practice and industry engagement and research has led to a model which puts the council in the best place to mitigate and manage the risks identified.

8.3 The project manages risk through the development of a project risk register. The register is being monitored by the Project Team, with each of the potential risks being ranked by scale of impact and probability of occurrence. Mitigation measures are robustly managed to reduce the scale and impact of risks, and the register will be maintained throughout the life of the project.

8.4 Risk will continue to be regularly reviewed as part of the project management processes and any significant changes will be reported to the Project Sponsor.

8.5 A Project Risk Register (**Appendix C**) captures the project's key strategic risks and identifies planned actions being undertaken to mitigate these risks.

9. Equality Implications

Have you undertaken an Equality Impact Assessment? **Yes**

9.1 An equality impact assessment has been completed as part of this decision, it is considered that this decision will be neutral in its impact on the general public by allowing the Council to continue to deliver its statutory responsibilities for highway maintenance and improvements to the transport networks in the most efficient, effective, and economic manner.

9.2 The equality implications of the larger Integrated Transport schemes will also be evaluated as part of the individual scheme development process. Works that will be delivered via the new delivery model will include improvements that address mobility issues and assist people with disabilities, for example active travel and pedestrian priority improvement schemes. The Programme also includes improvements to public transport infrastructure and walking and cycling networks that aid travel to jobs and services for those who do not, or choose not to, have access to a private car.

10. Corporate Implications

10.1 As outlined in the Policy section, corporate considerations such as creating a thriving and sustainable place, a council which empowers and cares about people, and an open and enabling organisation will all be met as part of the procurement and mobilisation process

10.2 The Mobilisation costs associated with this project have been considered and factored into the costings and run via the relevant governance process.

11. Options Considered

11.1 The options considered were as follows:

11.1.1 Current model – re-tendering the delivery of core maintenance and major works delivered through a single provider. Market research showed there would be less opportunities for improvement and little market interest which could affect the competitiveness of the tender process

11.1.2(**PREFERRED OPTION**) Splitting the contract
Delivering cyclical and reactive maintenance through NSEC, and a framework/DPS to deliver the top-up capital works

11.1.3 Create a new, stand-alone local authority trading company for delivering highways maintenance and investment This option was discounted early on by the Sponsorship Board due to the financial implications of setting up and mobilising a new teckal company potentially costing more than the contract itself and not achieving economies of scale.

11.2 This report recommends option 2 as it represents a potential significant financial saving and the best balance of risk and opportunity to the Council to deliver its Highway services moving forward.

11.3 Further Information on each of these phases be found within the Economic Case of the Detailed Business Case.

Author:

Gemma Dando, Assistant Director of Neighbourhoods and Transport

Appendices:

Appendix A – Options Comparison

Appendix B – Financial Comparison

Appendix C – Risk Register

Appendix D – Engagement Calendar

Supporting papers:

FAQs for Councillors