

Hampshire County Council

**Executive Member for Economy, Transport and Environment
Decision Day**

9th July, 2015

Item 3. APPENDIX

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1. Background

- 1.1. This appendix supports the report to the Executive Member for Economy, Transport, and Environment's Decision Day of the 9th July 2015. It outlines the work undertaken over the last 18 months to develop the proposals for the delivery of the future of the highway service in Hampshire. The paper is divided into four main sections which cover the key principles and influences considered to ensure that Hampshire County Council is in its strongest position possible to deliver a value for money highways service in the future. The four main sections are:

- A. Maintenance Funding and Highway Condition
- B. Future Highways Service
- C. Commercial Modelling
- D. Contract Procurement

- 1.2. Hampshire County Council delivers all of its highway maintenance activities via the Term Highways Contract (THC), one of the largest contracts procured by Hampshire County Council. The Contract is a traditional Term Maintenance Contract (TMC) and uses the New Engineering Contract (NEC)3 Term Service Contract for the Conditions of Contract. Hampshire County Council retains a strong Client role where all work undertaken through the contract is designed, ordered, managed and paid by the Client. The initial Contract duration is seven years (2008 – 2015) and has the option of three, one-year extensions. To date, two of the extensions have been awarded and the contract is currently due to end in 2017. Amey LG is the current Service Provider
- 1.3. Annual expenditure through the Contract has increased considerably during its lifetime. During the first year, the value of spend was £37.5m and this has increased to approximately £62m in 2014/15. The main reason for the growth has been an increase in capital funding provided for planned maintenance projects and grants received from central Government (flood recovery damage, pot hole repairs etc.). Over the past four years the Executive Member for Economy, Transport and Environment (ETE) has approved an additional £10m in capital funding per year for planned maintenance schemes, namely carriageway resurfacing projects.
- 1.4. The contract covers all aspects of highway maintenance including routine day to day highway repairs, reactive maintenance including emergency response, planned maintenance, winter and weather emergency service. Capital Highway Improvement projects are not part of the THC and are currently delivered through separate construction frameworks i.e. the South East Regional and sub – Regional frameworks.
- 1.5. In its role as the local Highway Authority the County Council has a statutory duty to maintain the public highway at public expense under the Highways Act 1980. The County Council maintains approximately 5,350 miles of public highway which comprises of four main classifications.
 - A Classified Roads – 415 miles
 - B Classified Roads – 340 miles
 - C Classified Roads – 1,265 miles
 - Unclassified Roads – 3,330 miles
- 1.6 Hampshire's future Highways Service delivery arrangements will be central to an overall transformation in the way it delivers its future highways service. The challenges of a reducing budget and competitive market environment means that Hampshire must adopt new ways of working over and above any

changes it has introduced for any of its previous highway contracts. The vision for Hampshire highway service is to deliver a new contract that is:

- Customer focused;
- Sustainable; and
- Provides Value for money.

PART A: MAINTENANCE FUNDING AND HIGHWAY CONDITION

- 2.1 Funding Background Highway Maintenance funding comprises two sources: Capital and Revenue funding. The use of Capital funding is governed by statutory accounting requirements. Capital funding is spent on planned maintenance works which provides structural repairs and improves the highway asset e.g. roads, footways, drainage, structures and prolongs the life to the highways infrastructure. Revenue provides funding for reactive or routine works which do not add extended life to the highway e.g. grass cutting, weed killing, gully emptying, emergency and winter maintenance.
- 2.2 Capital Maintenance funding. The Highway Maintenance Capital Budget 2012-2016 shows consistent funding in excess of £20m from Central Government via the block Grant within the Local Transport Plan. In addition, the Highway maintenance programme has been fortunate to have capital support from the County Council Members for a number of years who have allocated £10m per year funding for the 'Operation Resilience' planned maintenance programme.
- 2.3 The County Council has been successful in bidding for 'one off government grants' from central government in recent years and achieved further capital funding through one-off "repair" grants. This figure peaked in 2014/15 with an additional £19.6m where the County Council was able to demonstrate to central government excellent management of the network based on 'good asset management principles'

Highway Capital Budget 2012 - 2016

	2012/13	2013/14	2014/15	2015/16
Highway Maintenance Block Grant	£23.8m	£22m	£20.8m	£26.8m
HCC Additional Funding (Operation Resilience)	£10m	£10m	£12m	£12m
Integrated Transport Grant	£4m	£0	£0	£0
Government "One-off" Grant (Pothole Fund)	£3.5m	£6.9m	£19.6m	£0
Total	£41.3m	£38.9m	£52.5m	£38.8m

- 2.4 Over the 4 year period the average funding available for highway maintenance has been £42.8m per annum.
- 2.5 Future funding is subject to nationwide controls on public spending and top slicing of maintenance funding will require competitive bids to be submitted to government in the future via the "Efficiency" and "Challenge" funds. Successful bids to these funds must demonstrate the ability to deliver works in the allotted timescale with a percentage of the investment met by the Local Authority. While the injection of funds to tackle issues such as potholes and highway damage due to severe flooding are welcome (and Hampshire County Council with its service provider has built a reputation for delivery), the capacity and skill needed to achieve extensive programmes of works should not be underestimated.
- 2.6 The asset management approach adopted by Hampshire County Council provides a wealth of network data to draw upon in order to submit detailed professional bids to these funding schemes and the county is keen to retain the necessary capacity, skills and experience to drive the bidding process.
- 2.7 Future Capital Funding and Road Condition The level of capital funding over the last four years has enabled the county to use asset management

principles to target and prioritise planned maintenance works so that the condition of the classified road network across the county has stabilised at an acceptable level (4% in need of intervention). The largest portion of the network, the unclassified roads which covers 62% of the total road network, was deteriorating to 2010 as a result of low capital funding levels. However, the recent level of capital funding has allowed the deterioration to be halted and the condition of the unclassified roads has now been held stable over the last 3 years (17% in need of intervention).

- 2.8 The asset management approach uses lifecycle planning to harness a variety of preventative maintenance techniques, maintenance repairs and data to target maintenance spend at those sections of the highway that maximises the use of the available funding, providing longevity of the highway infrastructure. Planned carriageway repairs account for 62% of the capital maintenance budget, with drainage repairs being the next highest level of expenditure.
- 2.9 Central Government has announced its indicative Highway maintenance block grant for the next six years. The new funding mechanism reduces the level of grant provided to each authority on a formula basis with the balance of funding available only through a bidding process either to the Efficiency Fund (annual bids) or the Challenge Fund (every 3 years). Hampshire's allocation will reduce to a level of £23.8m in 2017/18 and from 2018 onwards will be set at £21.6m annually. Hampshire County Council made a bid to the Challenge Fund in February 2015, but funding was not awarded and the next opportunity will come in financial year 2017/18.
- 2.10 The additional annual planned maintenance (Operation Resilience) funding agreement approved by Members expires at the end of the current administration in March 2017.
- 2.11 The County Council's highway maintenance capital funding, which supports the structural life of the roads and other highway infrastructure, will therefore reduce from a current level of around £42.8m/year to around £21.6m per/year from 2017, based on known funding at this time. Using asset management principles, modelling has been carried out to assess the impact on Hampshire's road network of the significant reduction in capital budget. Based on the current road condition survey data, the asset modelling indicates that the County Council will be managing a declining road network in the future, which will require additional capital investment.
- 2.12 The consequence of this decline in the road network is that the demand for reactive maintenance to deal with on-going road damage will increase, putting pressure on the revenue budget which is itself reducing over the foreseeable future. Based on recent events, heavy snow or flooding could cause further deterioration, placing further pressure on the revenue budget.
- 2.13 It is therefore essential to keep the level of capital maintenance as high as possible to maintain the road network at a reasonable condition.
- 2.14 Revenue Maintenance funding. Recent years have seen austerity measures affect the delivery of services across the public sector, and these measures

will continue into the future. Highway maintenance has, like other services, been subject to reduced revenue funding over recent years and efficiencies from the operational highway maintenance revenue budget has yielded £5.7m savings from 2010/11 to 2015/16. Over the same period the staff revenue budget has had a corresponding reduction.

- 2.15 In order to achieve best value for money in the future, Hampshire County Council is working with its private sector partner Deloitte to drive down the future cost of service delivery and to achieve realistic, value for money services that are fit for purpose. This includes the revenue expenditure within the highways maintenance budget.
- 2.16 The current £31.3m highway maintenance budget supports six main areas of activity:
- Street lighting - approximately 30% of the budget is linked to the street lighting Private Finance Initiative and services the capital credits used in the PFI. This budget is committed for the next 20 year maintenance period.
 - ITS (traffic signals) - approximately 8% of the budget which covers traffic signal and illuminated sign maintenance and energy costs.
 - District Agencies - approximately 7% of the budget supports the Agency Agreements for districts to undertake grass cutting, weed control and arboriculture work on the highway.
 - Bridges - approximately 2% of the budget is allocated to maintenance of pumps and graffiti removal.
 - Winter Maintenance* – approximately 21% of the budget supports the snow clearance activities and pre salting of the roads against the formation of ice.
 - Routine Maintenance* – approximately 32% of the budget provides day to day highway maintenance such as gully cleansing, signs/line renewal, arboriculture, emergencies, grass cutting and day to date structural repairs.
- *Of the activities listed above only winter maintenance and routine maintenance are delivered through the current term highway maintenance contract.
- 2.17 Nationally it has been recognised that the ratio of capital spend to revenue spend is important. Capital spend allows for planned maintenance which is less expensive and extends the life of the roads. Revenue spend is for unplanned reactive works and is more expensive to deliver. Therefore, a greater capital spend ratio against revenue is beneficial and provides greater value for money.
- 2.18 The County Council's highway maintenance service, as part of its commitment to continual improvement, follows national benchmarks with other local authorities. National Highways & Transport (NHT) have been working on an efficiency model taking into account Customer, Quality and Cost. According to their last set of results Hampshire County Council's revenue budget (average spend per mile) is significantly lower than that of most other local authorities across England and while the capital spend has been above average the total maintenance spend per mile is below average.

- 2.19 The NHT Public Satisfaction Survey for 2014 saw Hampshire highways service continue to show improvement when compared to other County Councils. In 2014 Hampshire achieved the status of top ranking Shire County Council in the country for public satisfaction with highway maintenance services, which demonstrates that Hampshire County Council, its teams and service provider are working effectively with the available resources.

3 Network Demand

- 3.1 Hampshire is a developing county with key transport links to the ports in the south of the county, international airports and, over the county borders, with other economically buoyant areas such as Berkshire and Surrey.
- 3.2 The settled population is expanding with more households owning cars and increasing traffic congestion on the road network. While pursuing operational efficiencies and innovation in service delivery Hampshire County Council must also be mindful of statutory duties in maintaining a safe highway and be aware of the need to promote casualty reduction schemes and cost effective public transport systems which is as important for the connection with our rural areas as the more congested towns and cities.
- 3.3 Over the last 10 years the community have become more aware of the services that the County Council delivers and have become more active in contacting their county council to report or enquire about council services. In the highway sector we have seen significant increase in customer contact over the years. In 2002 the County Council received approximately 2900 highway related enquiries; this has risen to over 8000 enquiries in 2013 and 2014. Severe weather events have seen contact with the county council peak at almost 1200 enquiries in a month, which has placed a severe pressure on the highway service.
- 3.4 In severe weather events claims against the highway authority for damage to vehicles rise significantly and this puts additional burden on the service.
- 3.5 As future capital funding is reduced for highway services, the County Council is very likely to see continual increases in damage claims against the authority as the defect levels in the roads increase, placing a burden on the authority.
- 3.6 Further factors that affect the highway condition are traffic volumes. Recent data shows that in Hampshire
- more people travel to work longer distances of more than 10km compared to a decade ago;
 - more households own more cars;
 - 465,200 households have more than 1 car, an increase of over 41,000 over 10 years;
 - 63% of households choose to travel by car;
 - LGV vehicle use has increased over 10 years;
 - KSI (killed and seriously injured) statistics show that casualty figures are rising.

PART B: FUTURE HIGHWAYS SERVICE

4.1 In order to develop the next highway maintenance contract approach for 2017 (the new contract will be known as the Hampshire Highway Services Contract - HHSC), significant research and investigation into industry best practice has been undertaken as well as in depth assessment of the current market and engagement with external bodies and partners to help challenge and inform the outcome. This section summarizes the work that has been undertaken.

4.2 Since the current contract began in 2007 there have been significant changes for both Local Authorities and the Service Provider market, which have been mainly driven by a maturing market and the economic downturn. The drivers for the County Council have changed over time and will require a new delivery approach; some of the key influences are listed below:

- Revenue budget savings
- Capital budget levels
- Sustainable, value for money contract
- Retain in-house skill and capability
- Flexibility and resilience
- Collaboration and relationships
- Innovation and efficiencies
- Public and member service perception
- Digitally enabled service

5.1 **Areas of Research to Inform the New Hampshire Highways Service Contract.** Research into the best future options for the Hampshire Highways Service got underway in July 2013 and eventually encompassed or involved:

- Market engagement sessions;
- Discussions with other Local Authorities;
- Exploration of collaboration opportunities;
- Employment of specialist consultants;
- Staff engagement;
- Highways Maintenance Efficiency Programme;
- Select Committee and Task and Finish Groups;
- Private Sector partner – Deloitte;
- Contract Model Options research;
- Service Delivery Model Options research.

- 5.2 Early on in the research programme, the County Council commissioned the services of an independent consultant specialising in the procurement of public sector highway services. The purpose of this was to gain an understanding of the current highways contracting market and what had changed since the County Council had procured its last contract in 2007. From this appointment it was clear the market had changed considerably, mainly due to the recent economic downturn. Service Providers have gone through a number of mergers and takeovers. They have reduced bid resources and are more selective regarding contracts they wish to bid for, with individual contracts targeted well in advance.
- 5.3 Following this, various potential contract models were considered in more detail, ranging from a fully internalised Direct Service Organisation to a fully externalised Private Finance Initiative. Due to Member interest in the former, PricewaterhouseCooper were commissioned to assess the viability and desirability of this option.
- 6.1 **Market Engagement.** Two market engagement sessions have been carried out, one in November 2013 and another in February 2015, involving ten major suppliers from the industry.
- 6.2 The purpose of the engagement was to provide an update on the County Council and also to gain an insight to the current market conditions. Other discussion topics included potential contract models, duration and relationship style.
- 6.3 Key learnings from the sessions were:
- It is a busy market place with a number of authorities due to re-tender in the next few years. Service Providers will be able to pick and choose which relationships they want to pursue. Bidding teams are expensive and it is no longer the approach to bid for every contract. Instead providers choose authorities whose vision and values match their own strategy.
 - The County Council's new HHSC will receive interest from the market.
 - The attendees unanimously agreed that full a competitive dialogue process was lengthy and expensive. There was a great deal of support for targeted specific discussions (such as flexible KPIs which need to evolve over the contract duration) and a call for relationship building.
 - The market would welcome an evaluation model that focusses on quality (rather than just price). Certain elements such as material and staff costs will not vary greatly between providers but the approach to efficiency savings and innovation are likely to be the areas where greatest differentiation between providers is found.
 - In order to maximise investment opportunities and realistically cover fleet costs, a contract duration of (minimum) 7 to 10 years is preferred. Several providers suggested that contract extensions should be awarded early based on satisfactory performance and that extensions should be able to be refused

by the provider if the relationship (crucial for good collaboration) does not fulfil jointly agreed, standards.

- Integrated working including co-location is welcomed and the contractors want to be able to adopt innovative ways of working.
- Forward programming of works produces efficiencies of work flow, materials and resources; this is possible with a forward view of budgets and network investment. The contract will need a certain level of works guaranteed in order to plan pricing and investment. There was also a degree of interest in the Frameworks for capital programmes and also opportunities to be asked to explore support of wider council activities outside of the highway service.
- Capabilities for digital enhancements vary widely across the industry.

7.1 **Engagement with Other Local Authorities.** Over the past year the County Council has engaged with a number of Local Highway Authorities including; Cumbria, Derbyshire, Essex, Suffolk, Staffordshire, Surrey and West Sussex. The Authorities were chosen because their approaches to highways service deliver varies broadly, and a number have recently procured new contracts. From the discussions a better understanding has been obtained of the variety of contract and service delivery approaches available. The County Council also gained experience and advice regarding recent procurements and transformation.

8.1 **Staff Engagement.** Engagement with staff has been a priority for the department and the need for on-going dialogue has been compounded by the recent and impending changes as a consequence of budget reductions and reorganisations.

8.2 Staff representatives from all teams using the current highways contract were consulted to review future contract options during November and December 2013. The discussions focused around the following areas:-

- Contract timescales and extensions
- Changes in the market since the procurement of the current contract
- Alternative contract models and service delivery options
- Strategy for scoping the next contract
- What we should be looking to achieve with the next contract
- What's good and not so good with the current contract

8.3 The feedback from the meetings was fairly consistent across all teams. The general consensus was that the current contract was good and serves Hampshire well. Unsurprisingly there was little support for a move towards a more outsourced type contract and it was generally held that the County Council should try to maintain as much in-house technical knowledge, competence and control as possible.

- 8.4 A number of workshops have been undertaken involving groups of senior highway management to review the various contract and service delivery options available and identify what would be the most suitable for Hampshire's next highways term service contract. Although the workshops discussed a variety of issues the outcomes from the workshops were not a mandate for the final choice of contract or approach to delivery.
- 9.1 **Elected Member Involvement.** In June 2014 the decision whether to award Amey an extension to the current highways contract was reviewed by the Economy, Transport, and Environment Select Committee. The extension was requested to provide sufficient time to research, prepare and procure the next highways contract. The Committee recommended the granting of a one year extension but the second year extension should only be granted if Amey could provide improvements during the first extended year. The Committee also recommended the formation of two Task and Finish Groups, with the first group responsible for seeking improvements to the current contract and the second group responsible for working as an advisory group on the future contract. These recommendations were subsequently endorsed by the Executive Member for Economy, Transport, and Environment.
- 9.2 The second Task and Finish Group was formed of 7 Members from both the Economy Transport and Environment and Policy and Resources Select Committees. Four meetings were held between September 2014 and January 2015. During the meetings officers presented information regarding a range of contract options including:
- Direct Service Organisation
 - Term Maintenance Contract – limited, standard, plus
 - Integrated – strong and thin client
 - Joint Venture/Teckal
 - Private Finance Initiative
 - Multi Provider
- 9.3 The outcome of the meetings was a recommendation for a Term Maintenance Contract Plus to be used as the approach for Hampshire's next term highways contract. The recommendation of the Task and Finish Group was presented to the Select Committee on 20 January 2015 and the Committee endorsed the findings with a further recommendation that members of the Task and Finish Group form an advisory panel to work with the Executive Member for Economy Transport and Environment going forwards, to provide advice and oversight as the new contract is developed.
- 9.4 In May 2015 the Executive Member for Economy, Transport and Environment noted the progress made to date on the future highways contract, including the Member working groups and the Economy, Transport and Environment Select Committee in exploring options for the future delivery of the highway service beyond the term of the existing highways maintenance contract. The Executive Member also approved further development of this programme of work and authorised further engagement with the existing term highway contractor to

facilitate the transition to future arrangements. Approval was also given for the issue of a Prior Information Notice for a prospective contract for the delivery of the Highway Service in Hampshire after the expiry of existing contract arrangements.

PART C: COMMERCIAL MODELLING

10.1 Highways Transformation Programme. The highway service is undergoing a transformation programme to provide a leaner, more 'value for the available money' service delivery. This transformation programme started within the existing THC and will continue into the new Hampshire Highway Service Contract.

10.2 There are 3 key strands to the transformation:

10.2.1 Existing Term Highway Contract negotiations.

This project will deliver savings by altering and changing sections of the existing contract and specification clauses, resulting in a more efficient and effective contract specification. It will also be informed by the revision of the National Guidance 'Well Maintained Highways', which will allow a more risk based approach to maintenance when published in draft format later this year.

10.2.2 Highways Standard Operating Model (SOM)

This project will reduce the unit cost of the highway service by streamlining processes to avoid duplication and reducing 'manmarking' of the contractor through greater use of mobile workforce and digital technology providing less reliance in the future on the need to run depots at the current level.

It will also seek to reassess the most financially beneficial method in which to deliver the operational service by review arrangements with current partners and agents.

A further key aspect of this project is to reduce and improve the management of demand from customers through 'real time' mobile data and more public facing highway data, provided by a collocated client and service delivery team and providing access to Hantsdirect. This team is key to managing the highway programmes and reactive maintenance activity through proactive use of the highway service data and systems.

10.2.3 The new Hampshire Highway Service Contract (HHSC)

This project is drafting and securing the new Hampshire Highways Service Contract for the future. The Contract will meet the County Council's statutory obligations as the Highway Authority, provide value for money, be customer focussed and be flexible enough to meet the future economic pressures facing the Authority in 2017 and beyond.

Currently, all these projects are part of the work being considered with the help of the County Council's private sector partner, Deloitte, and will look to contribute to the corporate savings required by 2017.

10.3 The commercial and contractual components identified for the new HHSC are very complex and underpinned by a variety of detailed considerations and commercial layers that need to be understood, analysed and documented, and then evaluated through the procurement process. The following sections explore these interrelated factors.

10.4 HHSC Commercial Objectives. The commercial objectives that have anchored the discussions to find the correct approach to the next THC are very strongly influenced by the County Council's current position in having to secure revenue savings into 2020 and beyond. The 3 key objectives, in order are:

A. To reduce contract revenue expenditure

- To secure a competitive contract which offers a sustainable, good value for money highways maintenance service.
- To secure a contract which ensures a contribution to ETE's Transformation to 2017 and beyond financial targets.
- To secure a price which clearly illustrates the cashable benefits achieved.

B. To increase efficiency of capital delivery

- To use future capital spend as leverage through the procurement process to achieve best rates.
- To receive maximum rebate based on bands of capital injection.
- To 'guarantee' (where possible) capital throughput to ensure the supplier can maintain a sustainable economic model throughout the duration of the contract.

C. To maintain Hampshire's Road Network

- To ensure the service consistently 'keeps Hampshire moving'.
- To achieve a minimum network band 2.
- To achieve top-quartile in the NHT Public Perception survey and value for money tool.

11.1 Commercial Incentive Mechanisms. Commercial incentives will ensure the County Council successfully achieves the commercial objectives of the contract from tender stage throughout the lifecycle of the contract. The mechanisms to be used are:

11.1.1 Contract Throughput

The County Council will have two main mechanisms with which to procure works: through its framework agreements, and through the HHSC. It is intended that both mechanisms will be used in tandem to complement one another and secure the best outcomes for the County Council while ensuring sufficient HHSC throughput to maintain capacity for winter maintenance and weather emergencies.

11.1.2 Contract Duration

Consultation with the marketing local authorities shows a range of time frames to let those contracts run for. The most common and recognised duration takes into account the financial balance between the life and capital outlay of lorries and winter vehicles. Based on assessments and data gathered, the County has selected the prime contract duration to be 7 or 8 years with 3 separate year extensions based on performance and quality.

11.1.3 Highways Material Recycling

The County Council has explored the potential to reuse existing road construction material, to reprocess it and generate a new material. Although the process is still being trialled and developed, the early indications are that this has future potential. To date, the County Council has used 11,000 tonnes of recycled material in maintenance works on the County's roads and footways. There is potential to develop this further with the service provider with the ultimate aim of offsetting the demand on revenue funding for the county. A business case reviewing the use of the recycled material has shown a potential market and currently work is being developed as to how best use this to leverage value for money for the HHSC.

11.1.4 Variation of Price (VOP) Clause

The VOP mechanism is used to deal with the contract inflation during the lifetime of a highway contract. An appropriate mechanism will be developed for the contract.

11.1.5 Hampshire Brand

Hampshire is the fourth largest County Council in England in terms of highway network length, and Hampshire's is a key local authority contract for

many of the contractors in the highway maintenance market. Hampshire's location in central southern England can be used as a key location from which contractors can base their wider geographic operations across Southern England.

11.2 The above sub headings 11.1.1 – 11.1.5 outline a number of 'revenue offset' mechanisms which need to be included within any negotiation with potential service providers during the tender negotiation period. A combination of these mechanisms allows the County Council to potentially mitigate and offset some of the (potential) impact of revenue budget pressures to the highway service in the future.

11.3 Contract Pricing Mechanisms

The current contract is an New Engineering Contract (NEC)3 term services contract. It is predominantly a priced schedule of rates (Option A) model with some 'lump sum' or cost reimbursable items (Option E). The nature of the contract is that it is, on the whole, very prescriptive and the service is dictated by the items called from the schedule of rates to make up orders given to the contractor.

The new contract will look to shift specific 'high value' services towards more effective pricing methods which incentivises the right behaviours through pain / gain share mechanisms and helps foster a sense of shared ownership.

11.4 A comprehensive review of service activity has aligned appropriate pricing models to works based on cost drivers, scope, risk profiles and the commercial objectives. Over the life of the contract it is possible that over 80% of the current services could shift towards target based pricing to ensure on-going value is delivered across the contract. In the early days of the new contract it would be a priority to review the target cost approach to revenue funded activities.

11.5 This will be achieved by the contractor pricing a 'schedule of rates contract, or provide lump sums as required by the new HHSC and using the total 'price' within the schedule of rates for a given project as a starting point to negotiate a 'target cost'.

PART D: CONTRACT PROCUREMENT

- 12.1 The next generation highways service contract provides a significant opportunity to optimise the Authority's statutory duties as the Highways Authority seeks to maintain service levels, whilst delivering against increasing public/customer expectations at a time of fiscal constriction.
- 12.2 Hampshire County Council has significant experience of procuring and engaging suppliers from the construction sector, where each previous contract has provided a progressive approach to management of complex contracts, particularly where variable and flexible resources are required. The delivery of highways maintenance services rely on the use of core resources in order to enable the Authority to be reactive to issues such as weather conditions (winter and other weather related events), human activities (emergency incidents) and long term infrastructure resilience.
- 12.3 Procurement procedures lay down within the regulations six procurement routes that can be considered and these are as follows:
- Open procedure
 - Restricted procedure
 - Competitive procedure with negotiation
 - Competitive dialogue (CD)
 - Innovation partnerships
 - Negotiated procured without prior publication

The regulations provide guidance for the use of the various options and outline under what circumstances they can be considered for use.

- 12.4 Each of the available procurement options has been considered and in the initial stages three of these were ruled out as inappropriate in the case of Hampshire's new contract and these were:

12.4.1 Open Procedure

- Provides no opportunity to short list
- Potential high number of tenders
- Likely to result in many unsuitable tenders
- It is resource intensive when evaluating bids
- All tender documents must be ready and available in one go and
- Must be certain of its requirements at time of tender

12.4.2 Innovation Partnership

The procurement does not meet any of the grounds for its use as set out in Regulation 31. The contracting authorities' requirements can not be classed

as an innovative product or service. There is no research and development. The requirements of the highway service can be sufficiently well defined in order to be capable of being met by currently available solutions.

12.4.3 Negotiated Procedure without prior publication

This procedure is not appropriate on legal grounds. The procurement does not meet any of the grounds for its use as set out in Regulation 32. The contracting authorities' requirements can not be classed as extremely urgent.

12.5 Further to the elimination of the three procedures identified in 12.4 above, a workshop involving members of the contract team, Interim Deputy Director and a representative from the procurement team was held on 22nd May 2015 to evaluate the remaining 3 procedures:

- Restricted procedure;
- Competitive procedure with negotiation; and
- Competitive dialogue.

The advantages and disadvantages of each procurement option were assessed along with the criteria and weighting to be applied.

Weightings were agreed by the group for each criteria, and scores applied to each option jointly agreed by the group.

The overall ranking of procurement options from this process were as follows:

- Competitive procedure with negotiation = 78%
- Competitive dialogue = 66%.
- Restricted procedure = 44%

12.6 The favoured procurement route was, therefore, Competitive Procedure with Negotiation. Careful consideration has been given through the evaluation process to the risks associated with the use of each procurement option.

Early dialogue/engagement with potential services providers is supported by the market place. Such engagement provides a strong message that Hampshire wishes to engage with providers to ensure delivery of a contract that will provide value for money, whilst working openly and closely with any potential service providers to meet the future challenges in providing a quality highway service.

The competitive procedure with negotiation, whilst being a new procedure, provides an opportunity for the Authority to engage with the service providers following the initial submission of priced tenders, and before final award, in order to negotiate a final acceptable tender.

Consideration should be given to limit the areas for negotiation with the service provider to reduce any risk relating to timescales and this will focus negotiations on delivering best value through innovation and efficiency in key areas.

Structured negotiation will enable an improvement in the quality of the final accepted tender. It will also provide the County Council with an opportunity to mitigate some of the significant risks related to the tendered price.

With numerous other Authorities currently entering the market place over the coming 18 months to secure similar contracts, it is essential that Hampshire's contract attracts as much interest as possible and it is considered that this procurement option will provide such interest.