

Forward Plan reference number: FP/008/01/24

Report title: Future Highways Programme – Drawdown from Reserves and approval of the recommended Highways Services model	
Report to: Cabinet	
Report author: Councillor Tom Cunningham – Cabinet Member for Highways, Infrastructure and Sustainable Transport	
Date: 27 February 2024	For: Decision
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County Divisions affected: All Essex	

1. Everyone's Essex

- 1.1. Everyone's Essex sets out the strategic aim to renew our economy as a way to improve prosperity for everyone in Essex. To support this we have set ourselves the commitment to deliver and maintain a high-quality infrastructure, including our road network and all the services and assets associated with it.
- 1.2. Essex County Council is committed to making Essex a great place to live and visit, and for residents to feel proud to call Essex their home. As all of us interact every single day with Highways & Transportation services, we are committed to pursuing every opportunity that will continue to improve the services we deliver and help achieve this vision for Essex.
- 1.3. Innovation will be at the heart of delivering a highways service as we look to the future. It will play a central role in helping the service find new and bold ways to improve how we deliver repairs and maintenance, as well as making it easy, safe, and fun as possible for all of us to travel more sustainably.
- 1.4. Essex Highways is leading the way in trialling and embedding innovation and new technology and is one of the first organisations in the country to be overseeing new ways a highways service can innovate, including trials of graphene in our road surfaces to extend their life and trialling new technology for inspections. We wish to continue to be at the forefront of opportunities that could have a big impact on productivity, costs, and durability of repairs.
- 1.5. The current highways contract comes to an end in March 2027. We want to shift the dial far enough to address the challenges we are facing and best serve the needs of Essex residents and businesses.
- 1.6. The global and national economic situation and the changing climate add additional challenges to maintain and improve the quality of our road network, so it is also important to ensure any new service has the capacity to drive efficiency and meet our ambitions for net zero.

- 1.7. This paper proposes a model which provides additional internal capacity to enable partnering with suppliers to best exploit opportunities, advances in technology and innovation to help address ECC's ambitions around climate and net zero.
- 1.8. The proposed model retains all the advantages of working with a single provider, and also supports the local economy by contracting directly with small and medium sized businesses, through the carriageways resurfacing element, managed directly by ECC. Economies of scale, access to research and speciality services, will enable us to pursue new opportunities for innovation and embrace new technologies to streamline and enhance how we work, as well as driving the value for money for Essex residents.
- 1.9. We want to build skills, expertise and resilience at a local level in the Highways profession. By enhancing the resources embedded within ECC, we can achieve this directly in the council. This is increasingly important in the face of a nationally diminishing skill base. A stronger commissioning core in the Council also means holding providers to account and securing best value for Essex residents.

2. Recommendations

- 2.1. Agree in principle the mixed economy model for the highways service as the recommended model for further design as detailed in paragraph 3.9 of this report.
- 2.2. Note:
 - 1) indicative costings show that this model will require additional recurring revenue investment of circa £3m per annum from year 2 of the new contract, primarily as a result of increasing the ECC staff base compared to the status quo
 - 2) there will be a resulting reduction in Capital expenditure of circa £3.4m per annum from year 2 as detailed in section 4.1 of this report. However, the first 4-year MTRS period of notional borrowing savings total £500,000, based on current interest rate assumptions, and therefore will not fully offset the proposed additional annual ECC staff costs
 - 3) there will be a further decision taken to Cabinet to agree the final design of the model and approve proceeding to tender the relevant contracts.
- 2.3. To approve the reallocation of £913,000 of transformation reserve funding to this project, which is currently allocated to support the Ringway Jacobs Contract Extension Decision (FP4790719), bringing the total transformation funding envelope to £5.776m.
- 2.4. To endorse the rephasing of £2.8m approved transformation funding, being the unutilised funding from that allocated in FP/465/07/22, up until the end of 2027/28.

- 2.5. To draw down a further £1.462m of funding from the Transformation Reserve to fund new resources to deliver and embed the next service delivery model for the Highways & Transportation Service to be used in the period up until the end of 2027/2028 and to bring under ECC control the element of the A130 currently managed through a PFI arrangement up until 2030, taking the total investment for the programme to £7.2m over five years until the new contract is embedded.

3. Background and Proposal

- 3.1. The current HST contract commenced on 1 April 2012, with an initial contract period of ten years. The contract gave the right to extend for a further five years, which was exercised in 2020. The contract cannot now be extended any further and will expire on 31 March 2027.
- 3.2. A Cabinet Member decision in October 2022 (FP/465/07/22) approved a drawdown from the Transformation Reserve, to be used by the Future Highways Programme (FHP) to undertake a full review of service provision models available, review the highways strategies to support ECC's overarching vision, and understand and consider innovation and new technologies with any such service provision models. A preferred model has been identified and this report sets out the implications of such model prior to the FHP proceeding with the detailed design work on the contract, service specification and tender.
- 3.3. This model will need to capitalise on new opportunities for innovation, income generation and technological advancements. It will need to address the known vulnerabilities of the current model as well as future challenges facing the highways service and ECC, including combatting climate change, meeting financial challenges and skill shortages, whilst striving to be robust and flexible enough to tackle unknown challenges. The Discovery phase of the programme identified in more detail the vulnerabilities and challenges to be addressed and explored models which might best address them.
- 3.4. The preferred future service model will also be required to incorporate the future management and maintenance of the part of the A130 which is currently operated under a Design Build, Finance and Operate (DBFO) scheme by County Route who will hand back that part of the A130 to ECC in January 2030.
- 3.5. The funding requested for resources will ensure that the FHP is able to complete the design work on the preferred model to ensure that the future Highways service provision helps improve the outcomes for Essex residents and contributes to ECC's Everyone's Essex aims and objectives.

Vulnerabilities and Challenges

- 3.6. The key vulnerabilities and challenges for the FHP include:

- A Cabinet Member decision in October 2022 referenced the limitations of the current ECC commissioning team in terms of capacity and market and subject matter intelligence. Current ECC commissioning staffing, referred to as the 'Commissioning Core' in this report, has proven, over the last 11 years, to be too small as against the key commissioning activities required to effectively deliver ECC's objectives for the service. ECC has one of the smallest highways commissioning teams in the country, with one of the largest highways contracts. This has disadvantaged service provision, formed single points of failure and adversely impacted in-house resources and competencies.
 - Additional capacity for the Commissioning Core is required in the new model to focus on key outcomes such as asset condition and response to defects, in order to drive service levels that could result in a greater positive impact on the network.
 - Capacity and market intelligence of ECC support services such as HR and Technology Services has reduced over time due to the current model, limiting access to information and knowledge and therefore having limited capacity to deal with technology and staffing related issues in the existing highways partnership.
 - Due to an ageing workforce, especially in ECC roles, skills and competencies across the whole service will diminish significantly over the next three years.
 - Highways assets are in continued decline and services are unable to fully meet ongoing demand.
 - There are significant new challenges in relation to climate change and its impact on the network, and the requirement to decarbonise which will affect the way that ECC delivers services.
 - Increased capacity and skills needed to prepare to bring the additional assets associated with the A130 into the remit of the future model from 2030 and manage them.
 - Affordability challenges due to inflation, potential price increases, and aspects where the current model offers financial advantages.
 - The current contract has seen revenue savings of £5.029m per annum required and these are currently being delivered, which equates to a 20% reduction in revenue. This means known opportunities for savings are already in the process of being implemented, making it harder to find new savings opportunities.
 - Within the delivery arm of Essex Highways, approximately 85% of the workforce is employed by the contractor Ringway Jacobs, limiting the staff accessible for the procurement as Ringway Jacobs staff cannot be involved in the programme to ensure that ECC does not breach Procurement law.
- 3.7. The FHP worked through a detailed methodology to identify and refine a model to address these areas, build in flexibility to respond to emerging issues, challenges and the changing local government environment, and to enable ECC to exploit opportunities, including advances in technology and innovation, which help meet the current and forecast economic challenges. This is set out below.

Recommended Model

- 3.8. The model recommended as the proposed and optimum model for the future Essex Highways service, taking into account the vulnerabilities, challenges and opportunities, and while remaining within the affordability envelope, is the “Mixed Economy Model”. This model provides a potential step change for the future by having direct contractual relationships with suppliers for the carriageway resurfacing programme and an integrated service provider model for the remaining highways services.
- 3.9. A Mixed Economy Model means having an integrated service provider delivering the majority of highways services, plus a separately contracted resurfacing programme through one or more supply chain providers. The key features of the Mixed Economy Model are:
- Insourcing elements of the service from the current provider thereby permitting ECC to be more directive, and significantly strengthening links with ECC staff in delivery
 - Outsourcing to an integrated service provider a range of highways services including maintenance of roads, footways, cycleways, bridges and structures, street lighting, traffic lights, winter service, drainage, development management, public rights of way and verge and tree maintenance plus the inclusion of the future management and maintenance of the A130 following handback to ECC when the existing contract expires
 - A separately procured services contract for the carriageway resurfacing programme, potentially via a framework contract arrangement, which is controlled by ECC. This could be a value of circa £20m - £30m per annum.
- 3.10. The recommended staffing levels within the Commissioning Core will be designed to drive efficiency, capture opportunities and secure increased market and subject matter intelligence and knowledge in the service. Some of the other models which were considered by the FHP proposed higher staffing levels but this was not considered affordable. This Mixed Economy Model is a step towards future-proofing the Service but will not wholly remove all the current challenges and vulnerabilities.
- 3.11. This proposed model offers opportunities and benefits for the local economy by stimulating the market by having a separate contract for carriageway resurfacing, which will help to create appropriate commercial tension, and enable ECC to have closer relationships with Small and Medium Enterprises which is not available in an exclusively integrated supplier model, like the existing model.
- 3.12. The new proposed model will give ECC opportunities to build and influence social value into the ISP and carriageway contracts and give ECC more direct control over how to leverage this within the contracts across the levels of supply chain.
- 3.13. A key feature of the new model is to build skills, expertise and resilience at a local level in the Highways profession. A proposed larger Commissioning Core enables ECC to achieve this directly with ECC staff and, by having stronger links

with Providers, should enable this to be driven across the model for both Provider and ECC staff. This is increasingly important in the face of a nationally diminishing skill base and to address the current ageing workforce. The Service will also be developing succession plans to future-proof the skill base and resilience of the Service.

- 3.14. Meeting ECC's ambitions around climate change and net zero is more challenging for any Highways model given the nature of the service provided, being a significant user of energy. However, this model provides additional client capacity within the Commissioning Core to enable innovative partnering with suppliers including how to best exploit opportunities, advances in technology and innovation to help address ECC's ambitions. The stronger Commissioning Core can help direct where the service allocates its resources, and this may help the service align Highways priorities with the levelling up and decarbonisation agenda.
- 3.15. The model requires initial investment as part of the transitional shift from an integrated model to a mixed economy model – details of the proposed investment needed is set out in the Financial Implications section of this report. However, the Mixed Economy Model offers more opportunity to drive productivity savings through a potential framework for the Carriageway resurfacing programme category.
- 3.16. The Procurement team gathered and assessed insight which supported the development of the Mixed Economy Model from a range of other models. The insight was sought from category insight (across six high spend categories), market engagement, potential value for money opportunities, Local Authority engagement and research, trade press insights, and lessons learnt opportunities.
- 3.17. Further market engagement will be conducted throughout the Design Phase to test the model and explore opportunities which will shape the final design which will be brought back to Cabinet.

Resources

- 3.18. The current HST contract is ECC's largest service contract, which is highly visible to the public and all Members. The future model will be similarly large scale and high value. The FHP has identified multiple complexities for the model and to deliver these the programme needs funding for a skilled multi-disciplinary team, blending existing and new resource. The future model also builds in engineer roles to support the hand back of the A130 in an acceptable condition.
- 3.19. We are mindful of the current financial pressures on the residents and businesses of Essex and the role of ECC in supporting initiatives which address this. We have therefore challenged, refined and prioritised the resource request and resulting investment ask.

Delivery Approach

3.20. The programme is being delivered in six phases and the future service provision will be in place from 1 April 2027. A further decision will be required at the end of Phase 3 to approve proceeding to the tender stage and approving the final design of the recommended model.

Phase 1: Initiation (Complete)	<ul style="list-style-type: none"> • Programme Preparation
Phase 2: Discovery (Closing)	<ul style="list-style-type: none"> • Data analysis • Modelling • Set the strategic direction (includes benchmarking as a key activity)
Phase 3: Design	<ul style="list-style-type: none"> • Develop the preferred model • Complete governance to proceed
Phase 4: Delivery	<ul style="list-style-type: none"> • Go out to tender and award future contract • Start demobilisation of current contract
Phase 5: Service Transition	<ul style="list-style-type: none"> • Mobilisation of future model/contract • Demobilisation of current contract continues
Phase 6: Go Live	<ul style="list-style-type: none"> • Close current contract • Embed the future model/contract

4. Links to our Strategic Ambitions

4.1 This report links to the following aims in the Essex Vision:

- Develop our County sustainably
- Connect us to each other and the world

4.2 Approving the recommendations in this report to drawdown funds and approve the progression of the proposed model to the Design phase will not have an impact on ECC's ambition to be net carbon neutral by 2030. During the Design Phase a detailed impact assessment will be conducted, and impacts identified.

4.3 This report links to the following strategic priorities in the emerging Organisational Strategy 'Everyone's Essex':

- A strong, inclusive and sustainable economy
 - Maintaining the infrastructure to improve opportunities for people living in Essex and supporting a growing economy
 - Levelling up the economy by having a network which enables people to travel for education and employment
- A high-quality environment
 - Building into the contract(s), and working with Providers to find, ways to support net zero ambitions
 - Using the model to help colleagues deliver services around transport and active travel, and environmental resilience
- Service Excellence
 - Providing value for money particularly for universal services such as local roads

5. Options

5.1. Option 1 – retender the current contract model unchanged (not recommended)

This option is not recommended as an option for the long-term as it does not address any of the significant vulnerabilities and challenges present as set out in paragraph 3.6 of this report.

5.2. Option 2 - Current integrated service provider model with a limited enhanced commissioning core (The 'Do minimum' option) (not recommended)

This option would be a repeat tender of the current services after a simple refresh of the contract and the service specification to ensure it matches current legislation, regulations, and guidance documents and includes the roles that are needed to secure a new Highways contract for example bringing in-house services and roles involved in providing data and intelligence to support strategic decision making.

Although providing a slightly enhanced commissioning core, this option has no added capacity to drive productivity and work with partners on innovative opportunities, it has limited opportunities to future-proof the service and it only partially addresses significant vulnerabilities as capacity is still limited.

5.3. Option 3 - Mixed Economy Model (recommended option)

ECC is at a pivotal point to take an opportunity for change. The mixed economy model proposes:

- Insourcing elements of the service from the current provider that would permit ECC to be more directive, and significantly strengthen links with ECC staff in delivery including the future management and maintenance of the A130 following hand back to ECC
- A large lead Provider delivering the majority of services, as with the existing model
- A separately procured service for the Carriageway resurfacing programme, potentially via a framework contract arrangement, which is controlled by ECC

The key benefits of this model include a strengthened commissioning core to enhance market and subject matter intelligence, take a more direct lead, create a stronger integration between ECC and the Providers, building capacity to drive productivity and increase knowledge to help tackle asset deterioration. The model supports the ability to drive aspirations around Everyone's Essex and has a more flexible approach to the market, supporting local economy and gaining direct knowledge from the suppliers.

Some risks remain with this model including some known vulnerabilities which can only be addressed through increased investment in the service and

investment will be required to pursue opportunities.

6. Issues for consideration

6.1. Financial implications

6.1.1 After taking into account initial estimates of potential new commercial income opportunities this proposed operating model may unlock, the recommended operating model leads to a significant recurring net budget pressure of £3m pa which is unfunded. If this proposed operating model can't realise the £500,000 of new commercial income opportunities, the recurring net budget pressure increases to £3.5m pa. Based on current income levels, it is considered likely that the £500,000 saving is achievable from 2027/28. Absorbing such material revenue pressures is not financially sustainable and will affect delivery of other front-line services requiring difficult choices on the prioritisation of those services. It is therefore a pre-requisite of the approval of this proposal that the commercial negotiations and specification design of this contract strive to drive out significant cost savings to reduce the £3m pa revenue pressure whilst not affecting the outcomes delivered.

6.1.2 Figures presented in this section are indicative only and are based on information available and supplemented by assumptions determined and valued at the current time due to only being in the discovery stage of the project. Therefore, figures will be subject to further change during latter phases when more accurate estimates can be ascertained. It is important to note that financial implications specifically related to market risks have not been able to be robustly quantified.

6.1.3 Under **Option 3** the indicative revenue pressure for Year 1 is £4.3m (2027/28 including one off costs), with an ongoing pressure of £3m from 2028/29 (excluding one off costs). Further to this there is a £3.5m proposed annual reduction to the highways capital programme from 2027/28.

6.1.4 The s151 officer advises that the Council's capital financing borrowing should be reduced accordingly to maximise the possible revenue benefit of any switch between capital and revenue spending.

6.1.5 Should the decision be taken to formally reduce borrowing annually by £3.5m from 2027/28, the first 4 years of anticipated borrowing savings total £500,000 based on current interest rate assumptions. This is due to any highways borrowing being repaid over a 30-year time period and therefore the initial years do not fully reflect the compound borrowing opportunities which accrue from this over a 30 year period.

6.1.6 Under **Option 2** the indicative revenue pressure for Year 1 is £1.6m (2027/28 including one off costs) with an ongoing pressure of £505,000 from 2028/29 (excluding one off costs). Further to this there is a £86,000 proposed annual reduction to the highways capital programme from 2027/28.

6.1.7 Should the decision be taken to formally reduce borrowing annually by £86,000 from 2027/28, the first 4 years of anticipated borrowing savings total £11,000 based on current interest rate assumptions. This is due to any highways borrowing being repaid over a 30-year time period and therefore the initial years do not fully reflect the compound borrowing opportunities which accrue from this over a 30 year period.

FHP Strategic Financial Implications Model Outline	Mixed Economy £000		Current ISP Model with limited enhanced core £000	
	Revenue	Capital	Revenue	Capital
2027/28 Total - Pressure/(Opportunity)***	4,331	(3,453)	1,611	(86)
2028/29 Total - Recurring Pressure/(Opportunity)***	3,023	(3,453)	505	(86)

***Stated revenue pressures exclude borrowing opportunities subject to decision to formally reduce borrowing cap for the local authority.

6.1.8 At present there are limited quantifiable financial opportunities that have been identified through moving to a mixed economy model, with further work to be carried out during the design phase, this therefore presents a risk that the mixed economy model will not offer compensating savings to offset the cost increases outlined and therefore a clear best value assessment cannot be completed. There will need to be a value judgement as to whether this is worthy of the additional investment required.

6.1.9 The below provides an overview of the draft Revenue and Capital budgets for the Highways Infrastructure and Sustainable Transport portfolio for future years, (Both the revenue and capital budgets detailed below also fund activities outside of the current Ringway Jacobs contract, which include but are not limited to areas such as Home to School Transport, Major Capital Projects, A130 PFI. Based on the indicative pressures identified under each of the options put forward within this paper there is not sufficient funding to meet the enhanced obligations these options would result in and therefore further funding would need to be allocated should the decision be taken to adopt either of the options.

HIGHWAYS MAINTENANCE & SUSTAINABLE TRANSPORT

	2023/24 Latest Budget	2024/25 Draft Budget	2025/26 Draft Budget	2026/27 Draft Budget	2027/28 Draft Budget
	£000	£000	£000	£000	£000
Revenue	123,811	122,066	131,265	122,640	126,740
	2023/24 Latest Budget	2024/25 Draft Budget	2025/26 Aspirational	2026/27 Aspirational	2027/28 Aspirational
	£000	£000	£000	£000	£000
Capital	156,483	134,372	174,857	98,714	76,549

6.1.10 Following the approval of decision FP/465/07/22 which secured £4.863m to support the Future Highways Programme, resources were secured for the

Highways service for the full length of the programme whilst support service funding was secured up until the end of the 2023/24 financial year. Based on the preferred option put forward in this document this paper requests a further net increase of £2.375m (noting 6.1.11 below) from the Transformation Reserve up until the end of 2027/28 to support the delivery of Future Highways Programme, bringing the total programme delivery costs funded from the transformation reserve to £7.238m.

6.1.11 To partially mitigate this additional request for funding It is requested through this decision paper to reallocate £913,000 of transformation reserve funding to this project, which is currently allocated to support the Ringway Jacobs Contract Extension Decision (FP4790719) leaving a residual net £1.462m of funding being requested from the Transformation Reserve.

6.1.12 Based on revised spending profiles of the already approved £4.863m it is requested to endorse the rephasing of £2.8m approved transformation funding, up until the end of 2027/28.

6.2. Legal implications

6.2.1 Alternative highways provision must be procured or delivered to enable ECC to continue to deliver its statutory duty as the Highways Authority for Essex when the existing contract for these services expires.

6.2.2 The final design of the recommended model, and agreement to procure any required works and services, will be subject to a separate decision when more information on the costs and risks is available.

6.2.3 Any flexibility required to add or remove services from the future contracts, including the addition of the maintenance of the A130, should be clearly set out in the procurement documents and contract.

6.2.4 The drawing down of money from reserves does not authorise any expenditure that is a key decision or any significant changes to ECC services or funding which must be authorised by the relevant Cabinet Member.

7. Equality and Diversity Considerations

7.1. The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

- 7.2. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, sex, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 7.3. The Equalities Comprehensive Impact Assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

8. List of Appendices

Equalities Comprehensive Impact Assessment – ECIA574682457

9. List of Background papers

None