

# BRIEFING PAPER

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**SUBJECT:** HIGHWAYS CONTRACT RENEGOTIATION  
**DATE:** 13 JULY 2017  
**RECIPIENT:** OVERVIEW AND SCRUTINY MANAGEMENT COMMITTEE

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## THIS IS NOT A DECISION PAPER

### SUMMARY:

This paper sets out the outcome of the renegotiation of the Council's Highways Service Partnership (HSP) contract and the associated changes to the 'Citywatch' contract. The Service Provider for both contracts is Balfour Beatty Living Places Ltd (BBLP).

This matter is scheduled for review at the 18 July 2017 Cabinet meeting. The Cabinet paper contains a confidential appendix which is not for publication by virtue of categories 3 (financial and business affairs), and 7A (obligation of Confidentiality) of paragraph 10.4 of the Council's Access to Information Procedure Rules, as contained in the Council's Constitution.

### BACKGROUND and BRIEFING DETAILS:

1. The Cabinet paper for 18 July 2017 contains a number of recommendations in order to extend both the HSP and Citywatch Contracts to 30 September 2025 and make associated amendments to reduce the Council's General Revenue Fund (GRF) costs associated with the contracts. It is estimated that the renegotiated terms for the HSP and ROMTV contracts will achieve estimated GRF savings - compared to current spending and costs - of £5.4m over the remaining HSP and Citywatch contracts terms.
2. The Council has two contracts with BBLP:-
  - (i) The 'Highways Service Partnership' (HSP) which commenced in October 2010. The core term expires in October 2020 and the contract allows extensions of up to five years to be granted, based on performance against a set of Key Strategic Indicators (KSIs).

Legal opinion has indicated that, whilst the contract provides that extensions are assessed on performance against these targets, the Council could take a risk-based decision to grant the extension years to BBLP irrespective of this KSI performance framework by waiving the Council's rights to apply it, providing it is in the Council's interests to do so.

- (ii) 'Citywatch' (also known as 'ROMTV') which commenced in October 2012. The core term expires in 2022 and the contract allows for up to five years of extensions, solely at The Council's discretion and not based on specific performance criteria.

The original procurements and Cabinet reports relating to these contracts envisaged, and allowed for, the five year extension periods.

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3. The Council has General revenue Fund (GRF) savings targets (reference BOD5) for the major contracts. These targets are £654k in 2017-18 and £854k (recurring) in 2018-19 to 2020-21 inclusive. The confidential Appendix 1 to the Cabinet paper sets out the commercial terms and benefits associated with this proposal.
4. The annual effect of the revenue savings associated with this proposal are anticipated to be £774,000 in 2017-18; the exact in-year benefit would be dependent on the timing of the implementation of the proposals and the outcome of the final associated negotiations.
5. The total GRF saving over the remaining term of the contracts is estimated to be against current spend, projected highways capital spend and costs. It should be noted that the GRF ('Lump Sum') costs associated with both contracts are increased in accordance with indexation formulas on an annual basis.
6. Changes to both the HSP and Citywatch contracts would be required to implement these changes. The Cabinet paper of 18 July 2017 recommends that Cabinet delegates the Service Lead - Supplier Management - in consultation with the Service Lead: Legal Services Partnership and the Service Lead – Financial Business Partnering – power to implement the changes to the HSP and Citywatch contracts outlined in the cabinet paper. It is anticipated that the changes could take effect on or before 1 September 2017.
7. The core contract terms relating to both the HSP and ROMTV contracts would be unchanged.
8. The proposals are consistent with the policy framework including the Local Transport Plan. The Council would continue to maintain control over setting policy.
9. The revised contractual arrangements would ensure that the Council retains appropriate service levels and risk allocation whilst achieving GRF savings.
10. Extending the contracts would avoid the need to re-procure the HSP and ROMTV contracts in 2020 and 2022 respectively, the associated re-procurement costs and the prospect of the costs associated with one or both contracts rising against current expenditure levels.

## **RESOURCE/POLICY/FINANCIAL/LEGAL IMPLICATIONS:**

11. It is anticipated that the total effect of the changes over the remaining terms of the contracts would be a saving of £5,416,915. It is not possible to guarantee this level of saving as it is partially dependent on the commercial terms as contained in confidential Appendix 1 of the Cabinet report.
12. Authority is being sought from Cabinet on 18 July 2017 to enter into extended contract terms and incur additional GRF costs over the extended contract period as detailed in the Cabinet report of 18 July 2017.
13. The Council would retain the discretion to vary highways capital expenditure and set the level of budget.
14. BBLP would continue to occupy the parts of City Depot designated to them through leasing arrangements.
15. Legal opinion has indicated that, whilst the contract provides that extensions are assessed on performance to these targets, the Council could take a risk-based

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decision to grant the extension years to BBLP irrespective of this KSI performance framework by waiving the Council's rights to apply it, providing it is in the Council's interests to do so. The Citywatch contract terms allow the contract to be extended at the Council's discretion.

16. Risks will continue to be managed through existing mechanisms and contractual obligations.

## **OPTIONS and TIMESCALES:**

17. It is anticipated that the changes could take effect on or before 1 September 2017.
18. Alternative options considered and rejected include:-
  - Making no changes to the two contracts and leaving costs and terms unchanged.
  - Termination of one or both of the contracts. The Council would be responsible for financial damages to BBLP and would suffer reputational damage.
  - Re-procuring the contracts at the expiry of their core term. The Council would need to fund costs associated with re-procurement and would achieve contract prices at the prevailing market rate.
  - In-sourcing the services relating to one or both contracts at the expiry of their core terms. Services would be delivered at in-house costs.

## **Appendices/Supporting Information:**

None

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