

From: Matthew Balfour, Cabinet Member for Environment and Transport
Barbara Cooper, Corporate Director for Growth, Environment and Transport

To: Environment and Transport Cabinet Committee – 4 December 2015

Decision No: 15/00103

Subject: Proposed extension to Resurfacing Contract, currently let to Eurovia Infrastructure Limited

Key decision – *Affects the whole of Kent, with expenditure greater than £1m*

Classification: **Unrestricted**

Past Pathway of Paper: None

Future Pathway of Paper: For Cabinet Member decision

Electoral Division: All

Summary: The current resurfacing contract was awarded to Eurovia Infrastructure Limited in June 2014 for an initial two year period with an option to extend by up to a further two years. Based on both price and performance, it is proposed that the contract be extended by two years.

Maintenance activities covered by this contract are major road resurfacing and reconstruction. It does not include other forms of road and footway maintenance such as surface treatments and pothole repairs, which are provided under Highways' Term Maintenance Contract currently let to Amey (subject to a separate extension Decision – 14/00142).

Recommendation(s):

The Environment & Transport Cabinet Committee is asked to consider and endorse, or make recommendations to the Cabinet Member for Environment and Transport to agree the proposed extension to the Resurfacing Contract currently let to Eurovia Infrastructure Limited from June 2016 to June 2018 as attached at Appendix A.

1. Introduction

1.1 The Resurfacing Contract was tendered and let in June 2014 at the time of the economic downturn. KCC secured prices that were 15% less than the contracts covering the period before. As a result of those prices we have been able to increase the number of schemes delivered. Extensions of up to two years in total are permitted within the original OJEU notice and terms of contract. This report outlines Eurovia's performance so far, analyses industry price pressures

and considers the advantages and disadvantages of extending this contract against re-tendering.

2. Performance

- 2.1 Eurovia's performance has been excellent and throughout the contract so far their focus on customer service and client awareness has been very impressive. It is very rare for there to be any issues but when they occur, Eurovia is quick to identify solutions and work with KCC officers to lessen any impact, both in terms of the work itself and Kent's reputation. A good example of that is Eurovia pro-actively cancelling a contract with a traffic management sub-contractor who was not providing a good enough service to Eurovia or KCC. A further example is where Eurovia had accidentally damaged a member of the public's wall. Eurovia made contact with the customer, took responsibility for the matter and ensured that all the necessary forms were provided to settle the claim. There are many other examples of their approach and responsiveness to matters similar to this.
- 2.2 During the first eighteen months of this contract, Eurovia has delivered circa 120 resurfacing schemes to a high quality. As is usual with a contract of this type and size, there have been a small number of schemes where we have not been satisfied with the finished product. When this has occurred, Eurovia has been quick to rectify any issues entirely at their cost.
- 2.3 In addition to machine surfacing (where the failed surface is removed and replaced with a new surface), Eurovia has successfully delivered a number of very high profile and high impact road reconstruction schemes (where roads have needed to be fully reconstructed). These include Willington Street, Maidstone, The Broadway, Minster and Wrotham Road, Gravesend. Eurovia's engagement with local people helped to lessen the impact of these schemes on local communities and businesses.

3. Price and Financial Implications

- 3.1 The price reduction and saving detailed in paragraph 1.1 has enabled KCC to deliver more resurfacing schemes from resource allocated from the Government's Capital Block Maintenance Grant than would otherwise have been possible. We have considered whether further price savings could be secured in the current financial climate, particularly given lower oil prices, and have taken soundings from industry contacts in this regard.
- 3.2 The bitumen used in road resurfacing is essentially a by-product of the oil refinery process. Bitumen production is becoming less attractive to oil companies as they can refine better and obtain higher 'added value' price for aviation fuel and other hi-tech uses. That in turn means there are fewer bitumen suppliers in the UK and with increased volumes of work they do not need to reduce prices. In addition, most suppliers enter into long term arrangements to avoid increases in a volatile market and are now stuck with the arrangements.
- 3.3 The price of aggregate is also rising year-on-year, given the relative lack of availability of high-grip aggregate and the effect this has on demand for lower-

grip material. There is also an industry wide shortage of haulage which means that hauliers can achieve higher rates, notwithstanding lower diesel prices.

- 3.4 Whilst general inflation has been running around 0%, asphalt prices increased by 4% in 2013 and 8.6% in 2014 and going forward are expected to increase by an average of 5% per annum. Labour costs have been increasing by around 3% per annum. It is concluded therefore that the scope for achieving further price reductions is very low.

4. Contract Extension or Re-tender

- 4.1 The current contract permits extensions of up to two years. The advantages of this option are that we would continue to benefit from Eurovia's high level of performance and customer service, with the knock on effect that that has on KCC's reputation. It is very rare for KCC to receive complaints about the schemes provided under this contract. Whilst we would ensure that contractual and other measures were in place to maintain these standards should we re-tender, there is clearly a risk that performance and customer service would not be as high as that demonstrated in the current contract.
- 4.2 Extending the current contract enables KCC to continue to benefit from very competitive prices during a time of price increases across the market. In our view, there is a real risk that prices would significantly increase if we re-tender this service, partly because of bitumen, aggregate and haulage pressures but also because of the attractiveness in market terms of other work. Highways England has a significant multi billion pound motorway resurfacing and improvement programme, and major contractors are finding this more attractive given higher profit margins from this type of work. Major contractors are increasingly only tendering for contracts that they feel they have a best opportunity of success. Overall, as the economy strengthens, demand in the construction industry has been increasing, putting a strong upward pressure on tender prices.
- 4.3 Should the Authority decide not to extend this contract, we would need to fund a full OJEU re-procurement exercise, which would be time consuming and resource intensive. Timescales and cost would depend on the specification and model we decided to pursue. For example, we may decide to pursue a single countywide contract or split the county. We may also decide to develop the specification of services to be provided. Changes in the EU Procurement Regulations mean that tender documentation would have to be reviewed and updated. It is difficult to accurately estimate the time and cost of such an exercise but based on previous procurement of this contract it would take approximately six months to complete and is unlikely to generate any improved position to that what currently is in place. Hence the inclusion of the option to extend in the current contract.
- 4.4 Given the above, it is recommended to extend this contract by two years to the end of June 2018 as allowed for in the contract. Eurovia has indicated that it would be willing to waive the annual price adjustment to prices in the first year of an extension should a two year extension be awarded providing a further financial benefit.

4.5 Officers are already examining options for re-procuring the provision of major resurfacing services from July 2018, though this will depend on market conditions in 2017/18 and the effect that has on prices at that time. Our review of this service will be dovetailed with HT&W full review in line with the Commissioning Framework.

5. Legal implications

5.1 As a Highway Authority, KCC has legal obligations to ensure that the highway is maintained to a safe standard for highway users.

5.2 Maintaining a safe highway network also supports KCC's strategic outcome for Kent communities to feel the benefits of economic growth.

6. Equalities implications

6.1 An initial screening of an Equalities Impact Assessment has determined there are no Protected Characteristics that will be impacted upon either positively or negatively.

7. Conclusions

7.1 Eurovia Infrastructure Limited has confirmed that they will accept a contract extension and officers are very pleased with the service so far provided and the quality of the resurfacing schemes delivered. Eurovia has excelled at customer service and understands KCC needs as a client. The scope for further price reductions is limited and there is a real risk that prices could increase given current market conditions. Accordingly, it is proposed that this contract should be extended to June 2018.

8. Recommendation:

8.1 The Environment & Transport Cabinet Committee is asked to consider and endorse, or make recommendations to the Cabinet Member for Environment and Transport to agree the proposed extension to the Resurfacing Contract currently let to Eurovia Infrastructure Limited from June 2016 to June 2018 as attached at Appendix A.

9. Background Documents

9.1 None.

10. Appendix

Appendix A – Proposed Record of Decision
Appendix B - Equality Impact Assessment Screening.

11. Contact details

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