Delegated Decisions report

Milton Keynes City Council

31 January 2023

INFLATIONARY IMPACT ON HIGHWAYS CAPITAL DELIVERY

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Exempt / confidential / not for publication	**No**
Council Plan reference	**Not in Council Plan**
Wards affected	**All wards**

Executive Summary

The highways sector, as well as industries using similar materials has been experiencing hyperinflation in relation to costs, with overall average inflation across activities running at 24% above 21/22 prices. By example, Redway surfacing has seen a 300% increase. The stability in these prices is also variable and suppliers are unable to hold prices fixed for in some cases longer than 24 hours. This has the effect of planned works priced and ordered in April'22 being delivered later in the year due to material shortages but also costing significantly more. For our 2022/23 Capital Programme, this has absorbed and exceeded any budget contingency built into operational budgets, limiting the ability to deliver all schemes planned at the beginning of the year and requiring us to re-phase schemes into future years in order to fit within the current budget envelope.

1. Decisions to be Made

1.1 That the funding shortfalls and associated inflationary pressures on the programme of works attached at **Annex A**, be noted

1.2 That the adjusted work programme attached at **Annex A**, completing scheduled works over the remainder of 2022/23 and the beginning of 2023/24, be agreed.

1.3 That the resource allocation and spend approval of £865,298 in 2022/23 and £245,967 in 2023/24, be approved.

2. Why is the Decision Needed?

2.1 Significantly higher than forecast inflationary costs being experienced in the market impacting on the ability to deliver all schemes to cost in the planned programme.

2.2 The impact of not delivering these schemes will only delay upgrades, the asset will deteriorate further (i.e. porte cochere upgrades already impacted by funding pressures are subject to advanced deterioration, re-phasing will increase risk and add cost in addition to inflation) and with the current forecast costs be much more expensive in future years. There will be an impact on revenue maintenance costs, insurance claims, reputational perception, impact grant applications, increase customer complaints.

2.3 There is an additional risk of not following programmed plans with not being able to evidence good asset management practice as part of our self assessment for 'Incentive Funding' from the Department for Transport (DfT), which may result in a reduction in capital grant.

2.4 We are proposing on some schemes that the funding is made available in this financial year but slipped into 2023/24 to be planned and delivered at the earliest opportunity.

2.5 The original assessment of the impact of inflation identified additional scheme costs to the value of £1.2m, through ongoing commercial dialogue with our contractor we have mitigated some of these costs and wherever possible purchased materials ahead of schedule and undertaken more competitive procurement, this has resulted in a reduced overall extra budget requirement of £900k, see the attached **Annex** to the report.

2.6 A future review of bespoke assets in Milton Keynes will be taking place in the first half of 2023 to establish whether these can be replaced with suitable more sustainable cost effective alternatives that meet specifications, provide value for money, provide longevity and are fit for purpose. This will assist to mitigate both capital and maintenance costs. It will take the form a revised design handbook and be subject to a separate executive decision.

3. Implications of the Decision

Financial	Y	Human rights, equalities, diversity	N
Legal	N	Policies or Council Plan	Y
Communication	N	Procurement	N
Energy Efficiency	N	Workforce	Y

(a) Financial Implications

Additional capital spent this current financial year will be an investment in the asset helping to manage the level of future maintenance required by improving the condition.

Improved highways also assist to keep insurance claims and consequently insurance premium costs to a minimum.

The funding of the additional costs will be from capital reserves.

(b) Legal Implications

The highways authority has a duty of care under the Highways Act 1980 to keep the highway asset in a safe condition it does this by having systems in place to both inspect and repair the highways and having a planned approach to capital maintenance.

Where the authority has installed street lighting it has a duty to create a system of inspection and repair to maintain in a safe condition.

An increase in the price/s to be paid under the contract as a result of inflation as proposed would constitute a variation to the contract and therefore must satisfy the requirements of regulation 72 of the public contracts regulation 2015. Additional sums are requested as a result of inflation resulting from the current economic situation. The proposed price increase of £865,298 in 2022/23 and £245,967 in 2023/24. These circumstances would permit variation under Regulation 72 (1)(c) which permits modification in circumstances which could not have been foreseen by a diligent contracting authority; and do not alter the overall nature of the contract; and where any price increase does not exceed 50% of the value of the original contract. The limit on price increase is not reached, given that the original contract value was £200m and further given the savings that have been made as detailed in 3.5 above.

(c) Other Implications

(i) Communications form part of the day to day 'business as usual' for all highways services projects/programmes, this additional spend will not require any additional communications. There will be updates provided to the portfolio holder and where schemes are to be delivered , all stakeholders will be informed through the normal channels.

Delivery of these projects will help the authority to meet its current objective to repair 15,000 defects. In addition this work underpins its Asset Management Policy, Strategy and Plan.

(ii) Procurement

The works will be delivered through the existing Highways Term Service Contract, this contract has already delivered the existing programmes /projects and has capacity to deliver any extra works identified.

(iii) Workforce

In order to plan, design and issue the extra works packages more lead time and capacity is required. There is a risk that this could not be delivered by year end 2022/23 so a request that some projects that need additional funding can slip the funding to 2023/24 to enable delivery.

4. Alternatives

4.1 Work within Current Budgets

We have a series of programmed activities across highways that deliver schemes annually. We are able to reduce either the scope of the projects or the number of projects in order to fit within the budget envelope. This option is not recommended as this will delay essential improvements to assets, add to the backlog of necessary schemes , lead to a deterioration in condition in assets and cost the authority considerably more in the longer term.

4.2 Increase Capital Budget to allow planned Capital Programme to be Delivered

Individual projects or programmes mostly affected by changes in costs have their individual budgets increased to account for extra inflationary costs, see the attached **Annex** to the report. The table identifies the main key programmes and schemes affected by inflation costs and identifies projected additional cost required to deliver original programme. This is recommended as this will maximise current budgets providing ‘best value’ against inflation pressures, ensure assets are in their best condition, support future grant applications linked to good practice in asset management, create a positive impact on the number of service request/complaints, reduce claims against the authority and improve service perception.

4.3 Inflation Proof Works

This option has been considered but is not available until work is undertaken to identify how this can be achieved as a result we also recommend that there is further exploratory work undertaken to identify what changes to the service can be made to absorb inflationary increases that are expected to continue within the construction industry over the next 24 months. This will have the added benefit of informing processes that can be included in the new Highways contract being procured with a view to starting in 2024 and take steps to inflation proof the service as much as is practicable. Not recommended now as stated.

5. Timetable for Implementation

5.1 In the attacehd Annex we have identified what projects can be delivered in year and completed by end of March 2024. A small number of Structures projects cannot be delivered by this date but will be delivered by September 2023.

List of Annexes

Annex Schemes Inflationary Budget Table

List of Background Papers

None