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Democratic Support

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CABINET SUPPLEMENT 2

Tuesday 9 December 2014

2.30 pm

Council House (Next to the Civic Centre), Plymouth

Members:

Councillor Evans, Chair

Councillor Peter Smith, Vice Chair

Councillors Coker, Lowry, McDonald, Penberthy, Jon Taylor, Tuffin and Vincent.

I refer to the agenda for the above meeting and attach further reports which were shown as 'to follow' on agenda items 12, 14 and 19.

Tracey Lee

Chief Executive

CABINET

PART I (PUBLIC MEETING)

12. FUTURE DELIVERY OF HIGHWAYS' SERVICES (Pages 1 - 54)

Anthony Payne (Strategic Director for Place) will submit a report on the future delivery of Highways' Services.

A separate private report will also be submitted on the proposal.

14. CITY DEAL SOUTH YARD PROPOSALS (Pages 55 - 96)

Anthony Payne (Strategic Director for Place) will submit a report seeking approval to proceed with the finalisation of a Land Transfer Agreement to transfer areas of South Yard from Ministry of Defence to Plymouth City Council as part of the City Deal.

PART II (PRIVATE MEETING)

MEMBERS OF THE PUBLIC TO NOTE

that under the law, members are entitled to consider certain items in private. Members of the public will be asked to leave the meeting when such items are discussed.

19. FUTURE DELIVERY OF HIGHWAYS' SERVICES (E3) (Pages 97 - 104)

Further to the report referred to in part I of the agenda, Anthony Payne (Strategic Director for Place) will submit a report on commercially sensitive details relating to the future delivery of Highways' Services.

PLYMOUTH CITY COUNCIL

Subject:	Options for the Future Delivery of Highway Maintenance Services
Committee:	Cabinet
Date:	9 December 2014
Cabinet Member:	Councillor Coker
CMT Member:	Anthony Payne (Strategic Director for Place)
Author:	Simon Dale (Interim Assistant Director for Street Services) and Adrian Trim (Head of Living Streets and Network Management)
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Ref:	
Key Decision:	Yes
Part:	I

I. INTRODUCTION

- 1.1 Plymouth City Council has set out a clear commitment to become a Brilliant Co-operative Council and a vision to create a fairer Plymouth where everyone does their bit. The Council's Corporate Plan provides the framework for everything we do, what we want to achieve, how we deliver services and the way we intend to operate. A Co-operative approach to engagement and delivery of services that puts citizens in control of their communities and its needs and the services they receive is at the heart of the plan. The Plan contains clear objectives and outcomes which are underpinned by a values-led approach that is central to the way the Council operates.
- 1.2 The Co-operative values of being democratic, responsible, caring and working as partners will guide the Council as it transforms services, working closely with residents, service users, staff and partners and will guide everything the Council do to address the financial challenges it faces. This means the welfare of our citizens and listening to their views will always be the top priority when we make decisions on how to allocate our resources and plan our services.
- 1.3 The Public Highway is a key Council asset that is utilised by every member of the community and is vitally important to the growth, prosperity and economic wellbeing of the City. This report explores the opportunities and risks associated with a range of delivery options and provides information on comparable contracts where known.

Purpose of the report:

- 2.0 This report sets out possible options available to the Council for the delivery of Highways Maintenance Services, in both the long terms and short/medium. It assesses the options and identifies the relative advantages, disadvantages and risks of each. These are described in the body of the report and summarised in a table included within Appendix 4.
- 2.1 It identifies six operational models, currently in use by Highway Authorities across the UK, for evaluation by the Council relating to longer term options that the future Highway Service may wish to emulate:
- Single Provider
 - Joint Venture
 - Multiple Providers (Contracts)
 - Arm's Length Organisation
 - Private Funding Model
 - Collaborative Solution
- 2.2 It is possible to combine the elements of the models to customise a hybrid solution which may more closely align with the Council's highway objectives.
- 2.3 In the short to medium term, the Authority has options, largely dictated by the timeframes available until the natural expiry of the current contractual arrangements with Amey on 30th November 2015.

The options are:

- Extend the existing contract based on present contract terms and conditions until 30th March 2017.
- Extend the existing contract based on revised contract terms and conditions, until 30th March 2017, providing it does not breach procurement rules.
- In-house provision from 1st December 2015.

It should be noted that the provision of services in-house is an option for the Council in both the short/medium term and the long term. The decision on which option to take needs to also be seen within the context of what the potential for the future delivery of highway maintenance will look like post end 2017.

- 2.4 The report concludes that where an extension or restructuring of the existing Managing Agent Contractor (MAC) arrangements with Amey be the preferred option, it would require mutual agreement. If the extension of the existing MAC arrangements is to be pursued then; value for money, service levels in the existing arrangements, and contractor relationships would be subject to a continuous improvement plan aimed at improving Value for Money (VfM) and greater efficiency and integration within the wider Street Services transformation.

The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:

Pioneering Plymouth

Considering the future model for Highway Maintenance Services will enable us to be pioneering in the way we design and to meet the challenge of reducing resources.

Growing Plymouth

Providing a well-maintained highway infrastructure delivers one of the foundations for the growth of the city and its economy, attracting greater investment, with more jobs and homes.

Caring

Future Highway Maintenance Services will put the citizens of Plymouth at the heart of decision-making, ensuring that people not only have control of their communities, but also feel safe and confident in their communities.

Confident

Providing better co-operative Highway Maintenance Services that are more accountable, flexible and efficient will grow our reputation nationally as an exemplar highway authority.

**Implications for Medium Term Financial Plan and Resource Implications:
Including finance, human, IT and land:**

The current scope associated with the delivery of the Highway Maintenance Service is provided in Appendices 1 and 2. The full financial implications for the Council's Medium Term Financial Plan will be dependent upon the selected short/medium term option. Extending the existing contract in the short/medium term will not incur additional pressures above those costs stated in the appendices. However, should the decision be made to progress with the in-house option, consideration would need to be given to the allocation of internal and external resources and funding for, but not limited to:

- Management of the transfer process
- TUPE transfer of employees and pension arrangements
- Provision of IT equipment and software
- Transfer, or separate provision of vehicles and plant
- Increased central overhead charges
- Setting up of contracts for new suppliers
- External legal advice on a complex service contract

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

The implementation by the Council of a transparent and robust highway inspection regime is an essential element in maintaining its duty under Section 41 of the Highways Act 1980, and in providing its Section 58 defence. The decision to change the existing policy to reflect the guidance provided by the Highway Maintenance Efficiency Programme, in particular the increase in the timescales for the implementation of first time permanent repairs, may initially have an adverse impact on the Council's reputation. However, over time, the new regime should deliver a reduction in the number of unsightly temporary repairs and an improvement in the condition of the highway in general.

Equality and Diversity:

Has an Equality Impact Assessment been undertaken? No

Recommendations and Reasons for recommended action:

1. That the long term solutions for Highways Maintenance Services for the City of Plymouth be worked up for a final decision on preference of the proposed model by November 2015, drawing upon the best parts of other models, as outlined in paragraph 1.4, below.

Reason; The decision needs to align with wider decisions on provision of future Highway Maintenance through the work of the South West Highways Alliance (SWHA), which is referenced in further detail elsewhere in the report. Consequently, it is imperative to have in place a programme to enable a smooth transition from the existing provider to the next interim or final model of operation.

2. Extend the existing contract based with revised contract terms and conditions, until 31st March 2017.

Reason: The Council has a statutory requirement, as a Highway Authority, to deliver a range of Highway Maintenance Services; the necessity for a timely decision is driven by existing contractual time constraints.

3. That the Revised Highway Inspection Policy be adopted.

Reason: The implementation by the Council of a transparent and robust highway inspection regime is an essential element in maintaining its duty under Section 41 of the Highways Act 1980, and in providing its Section 58 defence against highway related third party claims.

Alternative options considered and rejected:

Options are contained within this report and are yet to be decided.

Published work / information:

- *Prevention and a Better Cure – Potholes Review* [HMEP 2013] <http://www.highwayefficiency.org.uk/efficiency-resources/asset-management/the-potholes-review.html>
- *Highway Infrastructure Asset Management Guidance* [HMEP 2013] <http://www.highwayefficiency.org.uk/efficiency-resources/asset-management/highway-infrastructure-asset-management-guidance.html>
- *Well-maintained Highways – Code of Practice for Highway Maintenance Management* [Roads Liaison group 2005] <http://www.ukroadsliasongroup.org/en/UKRLG-and-boards/uk-roads-board/wellmaintained-highways.cfm>

Background papers:

None

Sign off:

Fin	Mcl 415. 06	Leg	2163 6/D VS	Mon Off	2163 6/D VS	HR		Assets		IT		Strat Proc	
Originating SMT Member: Simon Dale													
Has the Cabinet Member(s) agreed the content of the report? Yes													

I INTRODUCTION

- 1.1 This Cabinet Report explores the delivery options available for Highway Maintenance Services, as an integrated part of the newly formed Street Services Department.
- 1.2 With the end of the initial seven year Amey Contract due in November 2015, which has an extension option, this report considers the options for the Council to deliver integrated Street Services, supporting the objective of becoming a “Brilliant Co-operative Council”. It utilises a variety of information sources and specific knowledge of the market in describing the options available.
- 1.3 The final choice of option will depend on the Council’s strategic priorities and preferred method of operational delivery. Much work has been done over the last 12 months to review alternatives to the current model of delivery.
- 1.4 The Transport Portfolio Holder and officers have visited a number of Highway Authorities across the country to assess first-hand how highway services are delivered. Individual elements of best practice were identified at many of those visited. These operational models met many of the aspirations that the Council would wish to explore in embedding its preferred future model of delivery. Of particular interest were:
- that the contract was performance driven and geared to deliver Value for Money (VfM) with annual efficiency targets,
 - the requirement to engage and work with the community on the delivery of locally identified issues,
 - the requirement to employ local people with defined targets for the number of apprentices employed,
 - a commercial arm with delivery targets to drive financial benefits through a joint venture, and
 - a requirement to use local small and medium enterprises and supply chain partners to support and help reinvestment in the local economy.
 - “Loop closing” customer service, by which it ensures that when work is requested, we inform customers when it is physically complete and not before using impersonal automated messages

2 BACKGROUND

- 2.1 In 2008, the Council let a contract for a minimum of seven years for the design, improvement, management and operation of the majority of the Council’s Highway Maintenance Services.

- 2.2 It was considered at the time that entering into a long-term, strategic framework partnership with a private sector organisation to deliver Highways Services would enable the Council to draw on the managerial and commercial expertise of a proven and experienced private sector partner in order to produce a major step-change in service delivery, through an efficient, customer focussed, innovative highways service with the flexibility to adapt to future challenges.
- 2.3 The Contract is essentially a bespoke agreement based on the Highways Agency Managing Agent Contractor (MAC) form tailored to Plymouth's needs. At the time, it was a model used extensively and successfully by the Highways Agency and, to a limited extent, other local highway authorities.
- 2.4 Not all highway functions were within the scope of the new contract. The Council retained some statutory and strategic duties, but the provider was given responsibility for operational and management decisions as they affected the performance of the highway network. A list of the current services presently delivered by Amey under the Highways Services Contract is included in Appendix 1. The contract payments to Amey to date are included in Appendix 2.
- 2.5 The core contract is due to reach its natural expiry on 30th November 2015, and whilst it allows for incremental extensions of up to a maximum of three years, based on performance, a number of factors have come together requiring the Council to take a decision now in setting a course for the provision of this service in the long and short/medium terms.
- 2.6 A key consideration in the determination of this is the work being carried out under the auspices of the South West Highways Alliance (SWHA), representing 14 South West Highway Authorities, aimed at exploring and enabling joint procurement opportunities for the purpose of improving efficiencies and reducing contract and procurement administration costs. The Council is currently working in a sub-group consisting of Devon County Council Somerset County Council, Dorset County Council, Bath & North East Somerset Council and Bristol City Council to explore the potential of joint service provision across parts of the Peninsula.
- 2.7 The sharing of current contract and service provision information – its nature and extent, along with contract expiry dates - has been useful in consideration of wider opportunities for sharing costs, best practice and setting benchmarks that are pertinent to delivery standards and reducing risk as a Highway Authority. Members of the SWHA have identified March 2017 as a date when the option of greater collaborative working would most likely coincide with a number of Authorities needing to have made decisions about their future provision.
- 2.8 As such, this date is a key marker for this Council in consideration of its future service provision and potentially offers the greatest opportunity to make the desired step change. Other Peninsula Councils, such as Cornwall Council (via Cormac Ltd) and Torbay Council (with May Gurney) have existing internal/external arrangements and

the Council's longer term plan will need to consider if there are delivery possibilities here which Plymouth may be able to take advantage and which merit further exploration. The over-riding consideration will always be what is best for Plymouth.

3 HIGHWAY MAINTENANCE SERVICE IN CONTEXT

Vision

3.1 The Council's Highway Maintenance Service is part of the Council's Street Services Department within Place Directorate that has a vision to be an exemplar of the Brilliant Co-operative Council. In its own blueprint published in May 2014, a new way of working across the Department and Council, with Partners and the Community was outlined, with Highway Maintenance identified as a key component part of a transition that would see Street Services viewed in a much more positive way than has historically been the case.

3.2 A recent Street Services restructure brings together Council led frontline services that are highly visible and impact on the Community, visitors and businesses daily. The vision sees an integrated service delivered in a coherent and co-ordinated manner, meeting the expectations of the community in terms of the quality of the environment in which they live.

The Council is, as part of the transformation of Street Services, moving to a more defined and responsive delivery system based on five geographic areas known as Britain's Ocean City Areas (BOCAs). These areas are clearly defined and will have designated Senior Officers who will be able to lead and co-ordinate service delivery and community engagement.

3.3 This type of role of Area Steward (Officers) has been introduced in various parts of the United Kingdom and have proved to be very successful and welcomed by the community and Members. Evidence to date shows a visible improvement in services delivery and efficiency through better co-ordination, with a demonstrable positive impact on timely intervention. Early indications are that customer satisfaction levels have risen as a result of the introduction of Area Stewards.

3.4 In practice, Street Services will be seeking to redefine how and by whom services are delivered, with a clear focus on the customer. Improved value for money will be realised through better co-ordination of activity, improved knowledge of issues, proactive operational planning and performance-related business planning. To illustrate this the Council's Street Cleansing and Grounds Service will be undergoing a major review of the way it delivers and organise service delivery over winter 2014/15, given the establishment of the new BOCAs.

- 3.5 The wider aspiration related to delivery of the Street Scene vision involves building skills and capacity through a flexible, multi-skilled workforce that is grown locally and developed to meet the needs of a growing regional City. To achieve this, the Council will be adopting a training programme and on-the-job opportunities to up-skill staff aimed at building a flexible and diverse workforce that is more responsive to wider service needs. Additionally, the Council will continue to expand its apprenticeship programme aimed at providing skills and opportunities for our local emerging workforce.
- 3.6 Highways Maintenance is one of the Council's most visible and important frontline services that impacts on every member of the community. As such, it is imperative that the option the Council selects for the future delivery of these services meets the aspirations of the Council's co-operative vision and way of working.
- 3.7 The mechanism for delivering this will be:
- Using the wealth of data, intelligence, knowledge and expertise across Street Services to design and deliver Highway Maintenance Services with our citizens and partners, with clear performance management outcomes and measures.
 - Having a management structure that is co-terminus with ward boundaries, whereby performance and accountability for delivery is clear and local partnerships for delivery and response to action is engrained within the Highway Maintenance Service and local management and the workforce are known to councillors and citizens.
 - Ensuring this geographically based Highway Maintenance Service is both responsive and most importantly, pro-active. There is much evidence that the Council can draw from examples elsewhere that promotes joint working and covers additional services, all with the aim of providing comprehensive "fence to fence" arrangements, Street Cleansing, Tree and Grounds Services, being the common examples.
 - Appointing senior managers from within the Council who will play a key role in area coordination, liaison, community engagement and ensuring that services are joined up, integrated and responsive.
 - Encouraging local partners to take ownership for their locality to increase confidence in the service.
 - Exploiting commercial opportunities in Highways Maintenance
 - Developing the Highways Maintenance team's capability to create a positive culture, customer service ethos and pride in the services delivered and that particularly with Highways Maintenance being so visible, the quality and standard of the work undertaken in Plymouth, is of the best quality possible given the fact that the Council is not working with an infinite resource level and it cannot have every road and pavement without blemish.

Investment in the Highways Network

3.8 The Council has made a considerable financial commitment to improve its overall highway network in recent years including;

- Committing an additional £20m over an eight year period commencing in 2013/14 for the reconstruction, resurfacing and repair of Plymouth's roads.
- Investing £8m in an 18 month LED Street Lighting Upgrade Investment Programme which commenced in August replacing 29,000 street lighting luminaires, which will deliver significant environmental benefits and year-on-year cost savings and cost avoidance.
- Maintaining its Highways Maintenance Revenue Budget at 2011/12 levels (i.e. £5.2 million) when many other Authorities have significantly reduced expenditure in this area.
- Securing £1.574 million from the Department for Transport's (DfT) Severe Weather Recovery Scheme to assist in managing the impact that the extreme weather conditions between December 2013 and February 2014 (the wettest winter on record) has had on the condition of our roads.
- Obtaining an additional £359,000 from the DfT's Pothole Fund, to spend on permanent repairs to carriageway potholes, or on measures to stop them forming in the first place. It should be noted that the amount per km of road was substantially less than neighbouring Councils received.
- Acquiring Local Enterprise Partnership (LEP) funding for traffic signal improvements on the Eastern Corridor £2.1m, Northern Corridor Cycling Scheme £2.4m, Derriford Interchange £1.4m and Derriford Transport Scheme £4.78m,

Performance of existing arrangement

3.9 Whilst discernible improvements were made in several areas of the highways service during the first three years of the Highways Services Contract with Amey, it is true to say that greater impact and innovation was anticipated. There are a number of reasons for this not happening, some of which were internal to Amey or the Council and some joint, whilst there were also external issues which were beyond the control of either party.

These included:

- mobilisation issues extended well beyond contract commencement, with the associated impact upon the bedding-in period;
- a disconnect between the Amey Bid and Operational Delivery teams in their understanding of the Partnership objectives;
- delivery of the major East End Transport Scheme early in the Partnership, diverting significant resources away from core contract activities;
- inability to fully embed the "one team approach" needed to achieve integrated service delivery across the Partnership;
- reductions in budgets in three consecutive years (2009/10 to 2011/12) reducing investment in the Service;
- variable use of Amey by other areas of the Council due to perceived value for money and quality of services issues;
- over-emphasis on a small number of sub-contractors and little effective benchmarking to ensure competitive pricing and quality;
- inadequate active promotion of the Partnership and selling of the services and benefits available through it.

3.10 Whilst the initial difficulties experienced by the contract have conspired against both Amey and the Council, there have been noticeable improvements and good news stories in the recent past. There are a number of well-run and efficient operations within Amey that the City benefits from, for example;

- Their programmed maintenance and re-surfacing programme work which is becoming better regarded by the public.
- Their increased use of local supply chains; in excess of £5m was paid to local sub-contractors and suppliers in 2013/14. This supports the City's economy, which the Amey recognises as being a priority for the Council.
- Amey have invested heavily in vehicles, plant and machinery and the asset base is far superior to that which the Council held. It should be noted that if the contract were to lapse in November 2015, these type of investments will be lost and the Council would have to provide them in a relatively short timescale with inherent risks of service discontinuation.

- Leading on the Council's response to three extreme winters over recent years, including the wettest since 1766 over 2014/15, in an efficient and well organised manner, ensuring that for the most part, the City's residents, businesses and visitors kept moving.
- The adoption of first time permanent pothole repairs, representing a more efficient and cost effective method of working, which not only safeguards the longer term structural integrity of the road surface, but, also improves the public's perception of the highway service;
- Environs work is now undertaken in many improvement schemes and maintenance works, whereby lining, signing and tree maintenance issues are rectified at the same time or identified to be scheduled more conveniently for road users if traffic management is required
- Working with the Council to develop a new Highway Inspection Policy which will help the Authority to better manage and mitigate risk against the background of changing circumstances and priorities. The main changes to the policy being:
 - The inclusion of a Carriageway, Footway and Cycle Route hierarchy to reflect the Authority's highways asset management approach
 - Changes in the frequency of Safety Inspections to align with the new hierarchies
 - Changes to the response times for attending to safety defects to enable the delivery of first time permanent repairs in line with the recommendations of the HMEP

Appendix 3 contains a new draft Highway Inspection Policy and explanatory briefing paper;

- The introduction of innovative road repair techniques and technologies to derive the maximum benefit from the Council's additional funding for road maintenance. These include the application of micro-asphalting within the wider highways capitalised maintenance programme and the introduction of the 'Roadmaster' patching machine (one of only 14 such advanced potholing machines in the UK) which allows pothole repairs to be undertaken in minutes.
- An improvement in 2013 in the percentage of Principal Roads in need of repair decreasing from 4.6% to 3.6% and the percentage of Non-Principal roads in need of repair decreasing from 6.9% to 5.2%;
- The introduction of an electronic vehicle tracking and works scheduling system including hand-held devices, allowing highways gangs to log progress as they work. It should be noted that the Council is only just beginning to introduce technology of this kind as part of its own Transformation Programme;

- An increase in the recovery of costs arising from third party damage to highway assets, e.g. following road traffic collisions, and from fee collections chargeable to Statutory Undertakers under the New Roads and Street Works Act 1991;
- The delivery of a Volunteer Snow Warden Scheme, fulfilling a commitment to the community by the Council, to help keep communities beyond the primary routes, moving through the winter.
- Initiatives such as motivational events, annual health checks and winter flu-jabs that have reduced sickness levels in Amey's workforce from a rolling twelve month average of 13 days per person per year in April 2012, to just over 7 days per person per year in September 2014.
- Fundraising for local charities (including St Luke's Hospice, Devon Air Ambulance, Dartmoor Search and Rescue, and Royal National Lifeboat Institute), and granting an extra day of annual leave to staff in order to undertake community activity (including beach cleaning, tending young trees at Central Park, working in charity shops and grounds maintenance at St Luke's Hospice).
- Commitment to local training and jobs, for example, via mentoring groups of schoolchildren from Torbridge High School as part of Engineering Development Trust's Engineering Education Scheme, and signing up to Plymouth's 100 Club, offering a number of work placements, including two people who have secured permanent roles, and also employing two local apprentices.
- Employing a former Royal Marine as a Street Works Inspector, following his discharge from the service through life changing injuries, sustained in Afghanistan,.

Considerations for the future

- 3.11 Selecting the most appropriate delivery solution for the maintenance and development of the network is a key element of any Highways Asset Management Strategy. HMEP provides sound guidance for Council's seeking to offer a quality Highways Maintenance Service and requires long term planning and a move away from traditional, reactive ways of working. The Council is just about to complete a full survey of its Highway Assets in order to understand the level of backlog maintenance it has on the Plymouth network, but, more importantly, to inform the Strategy referred to above.
- 3.12 The Council is continuing to build its asset management base and to engage through the SWHA, sharing knowledge and aspirations aimed at delivering mutual benefits. It is really important for the years ahead, to get the scope, models and decisions about provision right. The Council have a number of opportunities to consider.

- 3.13 Some of those opportunities have previously been discussed with the Council's Leadership and alignment with any Peninsula developments is considered to be of strategic importance. Therefore the options are presented with a view to alignment as far as possible, for March 2017.

The financial challenge faced by the Council with the uncertainties of coming years and the need to continue to meet legal obligations whilst trying to deliver efficient highway services to the public, is also very important. The following seven criteria are measures against which potential options were and should be considered:

i) Delivers good value for money - due to the funding pressures this is a key consideration in any future Highways Maintenance Services delivery arrangement;

ii) Contribution to Corporate Strategic Plan Outcomes – due to funding challenges and future uncertainties mentioned above, it is essential that any new contract embraces and enables community mobilisation and resilience, is flexible to accommodate change, and has the ability to enhance the local economy.

iii) Resilience (ability to react to uncertainty) – with the likelihood of severe weather events it is important that any future arrangements have the ability to adapt to peaks and troughs in demand;

iv) Retention of intelligent client and probity - Effective Highway Asset Management regimes are key to driving effective highway service delivery, as is the correct level of probity and strategic planning in any contractual arrangement;

v) Supports Innovation and Continuous Improvement - it is important that arrangements promote new ideas, methods of working and innovation in order to drive greater efficiency and innovation.

vi) Effective identification and management of risk - Any future arrangement must allow for the appropriate allocation of risk between the client and any contractor(s)/supplier(s) to ensure efficient work programmes;

vii) Ability to manage reputational risk to the Council - any future arrangement must be able to meet the reasonable expectations of the public and elected members;

4 LONG TERM OPTIONS

A variety of options are set out below.

Single Provider

- 4.1 This option involves procuring a new single provider arrangement to replace the existing contract with Amey after expiry, reshaped to incorporate the learning from the existing arrangement.
- 4.2 As per the current contract, the Council would need to enter into an exclusive arrangement with a sole supplier for the delivery of all highways services for a defined period of time. Appropriate liabilities and assets resulting from the winding down of the Amey contract would be transferred over to the new provider together with the staff under TUPE arrangements.
- 4.3 A small contract management team, with suitable skills, capacity and knowledge, would then oversee the relationship (which could be a strategic partnership) on behalf of the council, this would likely be through the Co-operative Centre of Operations.
- 4.4 The contract will need to incorporate suitable performance measures (with the ability to focus the supplier through deductions as well as rewards). Responsibility and accountability for service delivery would be vested in the provider. The Council would require the appropriate skills and capability to manage the contract.
- 4.5 This option possesses a number of strengths. It provides a simple and straightforward management structure through the one to one relationship with the sole partner. If the contract were set up correctly and positively managed it can transfer both delivery and commercial risk onto the contractor whilst retaining a clear 'brand' for both customers and stakeholders to identify with.
- 4.6 Focusing on key private sector delivery skills such as a Term Maintenance Contract, the risk of reactive maintenance is transferred onto the contractor who will be best placed to manage this. Procurement costs are reduced through the rationalisation of scope into a single package and the absence of any ongoing tendering through the longer term nature of the arrangement. This arrangement can also provide benefits through shared goals, streamlined processes and knowledge sharing such as commercial skills from the contractor and stakeholder engagement on behalf of the Council.
- 4.7 The main disadvantage of this option is its exclusivity. Should the partnership fail to deliver the service standards and cost savings expected of it, the consequences can be severe both financially and reputationally. The lack of ongoing competitive pressure, together with a lack of challenge and complacency on the part of both the client and contractors can limit the benefits of these types of arrangement. This can be offset to some extent by:
 - including a comprehensive and robust performance management system to incentivise the provider to perform

- The development of a continuous improvement plan with the ability to test the effectiveness of the delivery structure against best practice on a regular basis.
- Creating break points in the contract for early termination
- Structuring packages of work so that these can be market tested every 2 years to ensure ongoing competition

4.8 The existing contract already involved the transfer of council staff to Amey and therefore any further development of a long-term outsourcing arrangement would probably see further loss of skills and knowledge from the Authority. The contract needs to deliver to the required standard whilst being flexible enough to allow for the relationship to develop and improve over its duration.

4.9 The timetable for delivering a new single provider model will vary depending on the specific procurement method (Competitive Dialogue, restricted procedure, open procedure, negotiated procedure) and the resource available to the Council to deliver it. Any further options appraisal should also include soft market testing to establish how suited the local supply chain would be to deliver it. In assessing the various options it is unlikely that any solution would be deliverable before November 2015, a more realistic timeframe would be 18-24 months in total.

4.10 It is considered that criteria ii, iii, v and vi outlined in 3.13 above is met with this option.

Joint Venture

4.11 A variation on the single provider model is a Joint Venture Company, created by the Council and a private sector partner. The new company would be owned by both organisations and provide services to the Council under an exclusive contract for a defined period. A board of directors would be required containing representatives from both and would be responsible for setting strategy, developing the corporate vision of the new company and governance and oversight of its business plan and finances.

4.12 The creation of a joint venture company is an effective way to access private sector expertise and investment without relinquishing full control over delivery. Risk is shared equally between the two parties and the company run on a commercial basis with any share of the profits returned to the Council through an annual dividend. The new company would also be free to seek additional work from the open market and would offer the opportunity of a further revenue stream to the Council.

4.13 A clear risk to such an undertaking is the potential for conflicting requirements from the Council and the private sector partner. This tension between service outcomes and commercial performance can lead to the venture failing to meet expectations on both sides, although if set up correctly, this can be overcome. Additional overheads transferred over to the new company such as pension liabilities may also affect its

competitiveness and its ability to both demonstrate best value and win any additional work on the open market. It is anticipated that the creation of a joint venture arrangement would take around 2 years to deliver.

- 4.14 It is considered that all criteria outlined in 3.13 above is met with this option, with the exception of iv and vii.

Multiple Providers (Contracts)

- 4.15 This model involves the procurement and subsequent management of a suite of specialised contracts covering the entire range of Highways Maintenance Services. In the absence of any form of 'Managing Contractor' role, responsibility for supervising and coordinating delivery would fall to the Council. It is estimated that this would require a team of 10-15 suitably qualified staff.
- 4.16 Advantages of multiple provider models revolve around the commercial benefits gained from competitive tender and its attractiveness to the local supply chain. The Council would need to consider undertaking some 'soft market' testing ahead of procurement to ensure that the local market is prepared and will respond positively.
- 4.17 The disadvantages are the high procurement and contract management costs compared with other options. However, these are relatively small in comparison to the overall spend through them. Quality will also tend to vary across a range of individual contractors and the potential to improve and streamline delivery processes will vary too. There is also the prospect that there is not a mature enough market, locally, across all specialisms and economies of scale will be lost as well as potential cost pressures arising. The lack of a single 'brand' delivering the service can often confuse residents and stakeholders who do not understand which contractor is responsible for what service. Issues around poor delivery therefore often need to be 'fronted' by the council.
- 4.18 In developing this option, the Council should give careful consideration to how the various service functions could be packaged. Aggregated into too many packages, the spend through them is likely to be low, resulting in little market interest and a poor commercial response.
- 4.19 If the existing Managing Agent Contract was to expire, the Council would also need to consider the possibility of novating the existing Amey supply chain arrangements directly to the new multi-providers. This 'readymade' solution could provide an interim arrangement giving access to the supply chain quickly and without the associated procurement costs and time. Specific legal advice would be required prior to any such action to ensure that the contract and procurement laws are not infringed.

- 4.20 Delivering such a solution would be influenced by the resources available to carry out the procurement. Should all packages be procured concurrently, it is estimated that this would take 12-15 months. If the necessary resources are unlikely to be available all at the same time, a staged approach, based on prioritised packages might be more easily delivered. This 'phased' programme is likely to deliver the first procured packages in around twelve months but the overall process, including all packages, is likely to take up to two years.

It is considered that none of the criteria outlined in 3.13 above is met with this option.

Arm's Length Organisation

- 4.21 To deliver services more efficiently, many councils' are using ALMO's (Arm's Length Management Organisations) as an alternative to in-house delivery or outsourcing. These companies are created and wholly owned by the Local Authority and operate on a not for profit basis (although some may possess a separate trading arm). The potential benefits include a more efficient VAT solution, reductions in non-domestic rates or efficiency savings through streamlined delivery processes.
- 4.22 Specific benefits may also be derived in not having to comply with personnel or financial regulations to which in-house Council services may be bound. Depending on how the ALMO is structured it may also be eligible for funding unavailable to the local authority or borrow privately against any assets it possesses such as land or buildings transferred over to it at its creation.
- 4.23 A trading arm also offers the opportunity of an income stream to the Council through external commissions undertaken for other public sector organisations or the general market such as private developers or utility companies.
- 4.24 The use of ALMO's has been extended into many areas of service delivery and have used it to create a number of new companies delivering services as such as Leisure, Housing and Highways.
- 4.25 Cormac Solutions Ltd. is wholly owned by Cornwall Council and delivers a range of services within the built environment and neighbourhood portfolios. These include highways maintenance and construction, landscaping, network management and burials. Cormac Contracting Ltd. is their trading arm and undertakes work for other councils and private sector clients. They have approached the Council as to its future plans.

- 4.26 The ability of public sector bodies to contract directly with companies they wholly own has been tested in law and has found to be compliant with European procurement regulations. A number of test cases have established clear boundaries as to how this can happen, under what circumstances and to what extent. Known as the 'Teckal Exemption' the European Court of Justice has set out clear principles by which this can be applied and subsequent test cases have established a 'control test' that can be used by public sector bodies in assessing whether they are compliant.
- 4.27 In considering whether or not to create some form of ALMO under the 'Teckal' model the Council would need to consider what outcomes they would want to see from such an arrangement and seek specialist legal advice as to the consequences regarding procurement law.
- 4.28 This delivery option offers a number of advantages to the Council due to its flexibility and potential to change over time. The parent Council (or councils) can control the way that works are allocated without concerns around contractual rights and be able to respond to reduced budgets or changing priorities as they occur. As a vehicle wholly owned by the Council the company's vision and priorities are completely aligned with that of the parent(s), Elected Members can be actively engaged and profits returned to the Council in the form of a dividend.
- 4.29 However, as the participants are generally drawn from the parent authority there is very limited scope to draw on any private sector expertise. The skills necessary to create and operate a commercial enterprise of this type may also not be available within the Council and may have to be bought in from the outside. Similarly, there is little access to innovation or best practice from the market using this arrangement. Additionally, all service delivery risk is retained by the Council.
- 4.30 The creation of the new organisation will require both specialist skills and other resources to establish. Therefore, the necessary set up costs will need to be factored into any decision to proceed with this option. The ability to trade in the open market (i.e. supply services to customers other than its owner organisation) under the Teckal exemption is limited to 20% of the company's overall turnover; again this would need to be factored within any business case.

It is considered that all criteria outlined in 3.13 above is met with this option, with the exception of iv and vii.

Private Funding Model

- 4.31 Public Private Partnership (PPP) is a means to draw on private sector expertise in construction, finance and asset management to deliver services which are then sold to the public sector. The most popular form of PPP is the Private Finance Initiative (PFI). This model involves the creation of a specific private sector organisation created to deliver both the asset and the service. This Special Purpose Vehicle (or SPV) comprises a delivery partner (usually a construction company), a finance element (a bank or coalition of banks) and an operator. After providing the upfront costs, usually associated with large scale capital investment, the SPV is repaid by the Council over the duration of the contract through the unitary charge or tariff. After contract expiry the asset reverts to the ownership of the client body.
- 4.32 This model has proven to be very successful across a range of service sectors including education, health, housing and transport and has been an attractive option where the initial capital investment necessary to deliver the service has been high. Birmingham City Council and Sheffield City Council have both recently entered into long term PFI deals for the delivery of Highway Maintenance on their road network. Both are structured similarly with an initial five year capital investment period from the PFI provider (Amey) bringing the highways network up to a defined performance standard. The provider is then responsible for maintaining this standard for the remaining twenty year duration of the contract.
- 4.33 The advantages of such private funding vehicles are that it transfers both risk of investment and subsequent asset operation onto the private sector. It also enables major capital investment to be secured at an early stage and brings in private sector expertise both in delivery and its ongoing management.
- 4.34 However, although generally thought to be a positive contribution to UK infrastructure investment, significant concerns persist around whether PFI offers value for money. These contracts are predominantly front end loaded with the SPV absorbing a potentially disproportionate amount of risk for which the client pays. The contract arrangements are usually very complex meaning they are inflexible and expensive to change. This coupled with its long term nature of up to 25 years, also means that there is a significant commitment on behalf of the Council to enter into it.
- 4.35 Given the scale and complexity of PFI, it is very unlikely that this would be a viable option for the Council in the short to medium term. Such contracts are extremely time consuming and expensive to procure. It is acknowledged that the PFI mechanism is not currently available for use, but, will be in the future, although it will change significantly, as recognised in the 2012 Autumn Statement by the Chancellor of the Exchequer who refers to a replacement for PFI, namely, PF2.
- 4.36 The procurement process for any PFI arrangement is resource intensive and long in duration. The Sheffield City Council process for example commenced in mid-2009 and concluded three years later in 2012.

It is considered that none of the criteria outlined in 3.13 above is met with this option, with the exception of ii.

Collaborative Solution

- 4.37 The experience of the National Improvement and Efficiency Programme (NIEP) has shown that the creation of large, regional frameworks can produce operational efficiencies and reduce costs. The South West region spends over a billion pounds every year across the highways sector, a considerable sum, and one which could be leveraged significantly if aggregated. The Midlands Highways Alliance (MHA), developed under the NIEP, has demonstrated clearly the benefits of such a collaborative approach and has declared project delivery savings of over 10%, amounting to £28m from a turnover of £250m.
- 4.38 In addition to the cost savings associated with aggregated spend there are potentially further advantages to be realised for participants:
- Aggregated buying power across the region providing improved buying power.
 - Shared procurement costs. The cost of any significant public procurement exercise runs typically be up to £300k. Collaboration means that these can be spread over the participating authorities.
 - Common Specifications. The experience of the MHA showed that by agreeing a common set of material specifications the framework could realise savings through improved buying power. This was demonstrated in the procurement of blacktop which was rationalised from 200 to 20 different specifications resulting in a significant saving.
 - Mitigation of Capacity Risk. One of the biggest risks within the construction sector is the availability of skills and resources necessary to deliver the national infrastructure pipeline. Collaboration allows the supply chain to prepare for the South West programme and ensure that it can be delivered.
 - An aggregated regional programme also allows the framework to leverage local economic benefit and social value. This could be in the form of local supply chain development and the creation of a regional apprenticeship initiative.
- 4.39 The development of a regional collaborative framework produces clear benefits but does take considerable time and resource to deliver. Establishing a clear brief between the participating authorities can be difficult to achieve and the time taken to procure a large framework considerable. It is unlikely that this option would be available to the Council within 18 months.

It is considered that all the criteria outlined in 3.13 above is met with this option.

Hybrid Solution

- 4.40 The options in this report have been set out as discrete solutions with each possessing a unique set of risk, strengths, weaknesses and opportunities associated with them. The Council may however find it appropriate to put in place a solution which draws on more than one of these different models.
- 4.41 The service requirements for Highways Maintenance and Major Projects are for example very different. Pothole filling is by its nature required to be responsive, short term focussed and highly visible. Major Projects however operate on a longer timescale and require a more strategic approach. It may therefore be appropriate to put in place a 'hybrid' arrangement which adopts a different option to each.
- 4.42 South Gloucestershire Council have adopted a model which utilises the low cost, quick response advantages of its in-house service to deliver reactive maintenance and routine base functions such as grass cutting, graffiti removal etc.
- 4.43 This is complemented by a multiple provider model for the bulk purchase of materials (such as bituminous products) and specialist services (such as white lining) through a series of frameworks. This arrangement allows them to provide a flexible in-house service which can be topped up as and when necessary. It maximises use of the local supply chain whilst the tendered elements also maintain competitive pressure on prices.
- 4.44 Staffordshire County Council utilise a different hybrid model which draws on both the Single Provider and Collaborative options. Reactive and routine maintenance services are provided through an exclusive arrangement with their 'Virtual Joint Venture' partner whilst major capital projects are delivered using the MHA collaborative framework.
- 4.45 This flexible arrangement allows Staffordshire to work with its partner to drive out cost and provide a locally focused service tuned to its specific local needs. Its ongoing relationship with the MHA provides an opportunity to leverage its capital spend alongside other participating authorities to increase its buying power on major projects.
- 4.46 All options are summarised in Appendix 4, along with associated risks, strength and weakness for each.

It is considered that all the criteria outlined in 3.13 above is met with this option.

Expanded Scope ('Fence to Fence')

- 4.47 There is an option to extend the scope of any future contract to include a broader range of street services. This could cover Highways Maintenance, Street Cleansing, Grounds and Tree Maintenance amongst others to form the basis of a 'Fence to Fence' service arrangement for neighbourhoods.
- 4.48 Examples of councils that have outsourced such a diverse range of services under a single provider are not common. In fact research has not identified any Council who have procured such a range of services under a single contract. In theory, it could provide a single responsible provider for the complete street service and so simplify interfaces and communications in delivery. It would however, also place a performance risk in vesting all responsibilities with one supplier. Additionally, it is not clear that the market possesses a supplier capable of providing the complete range of services envisaged, although some come close, consequently competitive pricing is not guaranteed.
- 4.49 A large variety of services may also restrict interest to a few, larger companies and, with the exception of potential joint ventures, probably discourage small to medium size companies from bidding.
- 4.50 Liverpool City Council come close under two separate contracts let to the same contractor independently. They have appointed Amey to deliver both Street Cleansing services, Highway Maintenance and capital projects under a single contract let in 2013. Amey already provide Waste Collection, Recycling and Grounds Maintenance services let under an earlier arrangement which commenced in 2008.
- 4.51 Wirral BC has a "verge to verge" solution (excluding waste collection) and this has been successful to some extent but has encountered issues for the provider in sustaining their original competitive costings.
- 4.52 Manchester City Council reorganised their Neighbourhood Services Directorate in 2012. The key objective was to move away from functionally defined service streams and establish an 'area focussed' approach. Here 'Neighbourhood Management Teams' would coordinate and deliver street services such as street cleaning, highways maintenance, private sector housing regulation, parks management etc.
- 4.53 Although generally successful this approach has resulted in challenges to service quality in key areas that require specific technical knowledge. The reporting of highways defects, for example, has proved to be problematic as the 'generic' area management staff have been unable to make informed decisions as to what comprises an actionable defect.
- 4.54 This lack of specific technical knowledge has resulted in deterioration in the asset information held by the council and a consequent effect on the reactive maintenance budget.

- 4.55 The decision regarding which services are included in any single provider arrangement needs to be carefully assessed to ensure that they are capable of delivering the required savings. Street cleaning and highways maintenance for instance do share the potential for streamlined processes in callout and co-ordination, shared resources and an integrated fleet.
- 4.56 Although savings are likely to be made on internal management costs, it should be noted that ‘non-core’ services will usually be simply subcontracted by the main contractor with a subsequent effect on overheads. The flexibility to be able to react to operational priorities currently offered by individual services is also likely to be affected.
- 4.57 A vehicle comprising a broad range of service elements offers the opportunity to provide an integrated solution, easily identifiable to residents and other stakeholders and therefore directly accountable for the quality of service they provide. This option transfers risk across a range of services onto a single provider. It also offers the advantage of drawing on private sector expertise and the further opportunity to realise potential cost savings going forward.
- 4.58 In considering this option the Council should think through carefully how this is defined in the contract, how performance management would be put in place to monitor it and whether they would be willing to place the management of more street services in the hands of a single contractor.

It is considered that additional criteria would be required to meet an extended scope with this option.

As stated earlier, it is of critical importance that the Council take the opportunity to assess all options available for the long term. To this end, there is a need to consider which short to medium term option offers the Council the best opportunity to deliver immediate improvements and is least resource intensive in preparing for the highway services towards the end of the decade.

5 SHORT TO MEDIUM TERM OPTIONS

Extend existing contract based on present contract terms and conditions.

- 5.1 By mutual agreement, the Council and Amey could agree to three single year extensions leading up to November 2018. This would provide continuity, but, would not provide the flexibility required to have the Council align itself with any Peninsula development and would mean that the same provider will have had ten years working in the City for which it would not necessarily demonstrate that great efficiencies or innovation had been achieved during the overall lifetime of the contract.

It is considered that only criteria iii and iv outlined in 3.13 above is met with this option.

Extend the existing contract based on revised contract terms and conditions, providing it does not breach procurement rules.

- 5.2 By mutual agreement, the Council and Amey could extend as above, but, would agree changes to the way the contract is written without breaching procurement rules. By this, the Council must not make a change that could be considered a material change to the contract, thereby giving rise to a challenge from another provider claiming that it should have been re-tendered. Additionally, as the current contract provides for automatic extensions if performance criteria are met; the fact that the Council agrees to extend the contract in any event without those criteria being met is potentially challengeable on the ground of unfairness. That challenge risk is assessed as low however (identical concerns apply for the extension referred to in 5.1 above). Changes envisaged would be in relation to outcomes for citizens in Plymouth and be related to being part of a Brilliant Co-operative Street Service through integrated, geographical working. Specifically the changes would involve prioritising and redefining Key Performance Indicators (KPIs) related to operational delivery and performance improvements.
- 5.3 For both the above two options, Amey's overall performance is improving during 2014 (further improvements would be embedded as part of service delivery) with a successful resurfacing programme that has made a visible difference to the City's roads, the backlog of potholes being more than halved to around 3500, a reduction in complaints and some innovation, for example, the Roadmaster that, along with traditional repairs has seen over 16,000 potholes repaired in 2014, so far. There is a case to offer the opportunity to build on the progress that has been made to date, and to drive further improvements to service delivery and value for money.
- 5.4 Some longstanding issues with Amey have been the subject of recent discussions and a potential means of resolution has been identified. Full details of the issues and the proposed resolution are set out in Part 2 of this Report.
- 5.5 On consideration, it would be advantageous to the Council if it capitalised on these efficiencies and opportunities for a further 16 months beyond November 2015 until 31st March 2017. This would include the use of innovative solutions embedded in the Council's annual programme as a means of improving efficiency, e.g. the use of the 'Roadmaster', working hand-in-hand with repair gangs delivering first-time permanent repairs, to protect the long-term integrity the city's roads, this matter being a major consideration in the thinking around our long term planning under the SWHA .

It is considered that all criteria outlined in 3.13 above is met with this option, with the exception of ii and v.

In-house Provision

5.6 The default position at the end of any contract (termination, expiry or mutual agreement) would essentially return the service in its entirety to in-house provision.

5.7 In-house provision presents a further three options for consideration, these are:

- i) All services are returned and wholly managed in-house, all eligible staff for TUPE are re-employed by the Council.
- ii) A core team providing statutory, regulatory and management functions are returned in-house and the remaining services are managed through a Holding Company of the Council to provide flexibility in determining future provision for service delivery.
- iii) A core team providing statutory, regulatory and management functions are returned in-house, the remaining services are managed through the tendered commissioning of a partner that has expertise and capacity to deliver specified highway maintenance services (related to Term Maintenance Contract work)

5.8 Table I, below, summarises the split of functions for each of the three in-house options.

i) All In-house	ii) Holding Company	iii) Tendered Partnering
<ul style="list-style-type: none"> ▪ Intelligent Client ▪ Design ▪ Operations (DLO type) ▪ Capital programme delivery 	<ul style="list-style-type: none"> ▪ Intelligent Client ▪ Design ▪ Operations ▪ Capital programme delivery 	<ul style="list-style-type: none"> ▪ Intelligent Client ▪ Design ▪ Operations ▪ Capital programme delivery
<ul style="list-style-type: none"> ▪ Capital schemes, including resurfacing, to be retendered 	<ul style="list-style-type: none"> ▪ Commercial / business support 	<ul style="list-style-type: none"> ▪ Commercial / business support

Plymouth City Council
 Holding Company
 Local Partner
 Competitively tendered

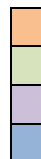


Table I – Summary of in-house options

5.9 Common to all options is an ‘Intelligent Client’, an in-house team with specialist knowledge, experience and expertise (technical, commercial, contractual, environmental, safety and managerial) responsible for competently specifying requirements and managing the delivery of services.

- 5.10 In all the above options, there will be procurement of annual resurfacing as required, possibly alongside major capital schemes. This process is common to previous and existing arrangements.
- 5.11 The 'all in-house' option provides the greatest level of control in terms of decision making for the delivery of services, e.g. the allocation of budgets against highway functions, the operation of the network and planning of works, and communications. The level of control reduces with the 'Holding Company' option, and further again with 'Tendered Partnering', as the authority has progressively less influence over staff and working arrangements in these organisations. This all depends on the services delivered under these models.
- 5.12 The current contractual arrangements make provision for this scenario through the clauses relating to expiry and termination. Furthermore, the Council retains the role of Highways Authority and as such must take whatever action necessary to maintain the safety of the Highways under its control. Additionally, the original contract and OJEU Notice anticipated that the service, or parts thereof, might return to in-house provision.
- 5.13 To implement an in-house option, the Authority would need to plan and develop a programme for the termination of the existing contract and creation of an in-house delivery vehicle. The organisation would inherit a delivery vehicle and would need to shape this to suit the Authority requirements, e.g. client functions, and ultimately the strategic aims.
- 5.14 That said, in migrating the service from an external provider to delivery through an in-house vehicle, there are a number of aspects that the Council will need to consider which will have varying levels of implication:
- Skills and capability of available staff
 - Staff Terms & Conditions – TUPE (salaries, leave, pensions and benefits)
 - Admitted body status (pensions)
 - Premises transfer
 - Vehicle and plant transfer and liability
 - Working liabilities/warranties
 - Client side role and functions
 - Statutory duties
 - Strategic aims of the Council
- 5.15 Benefits include:
- Flexibility in terms of time frames, standards (what is acceptable or not) and responsiveness to market conditions,
 - Greater degree of control in both the long and short term,
 - Removal of 'private sector' overhead (but replaces it with Council overheads).

5.16 This option however, presents a number of challenges:

- Cultural issues may return around 'old-style' council working practice,
- There is no recourse for poor delivery,
- Potentially it is only a short term solution, due to continuing pressure on available Authority budgets
- Hard to achieve real savings, due to higher fixed costs,
- Pressure on Authority budget available for the service,
- Restricted potential for investment in infrastructure due to availability of budget from Authority finances ,
- 'Partnering' opportunity limited,
- May not align with possible SWHA timeline March 2017
- Requires significant work for an alternative post November 2015 solution which will be rendered unsuitable for post-March 2017 SWHA arrangement ie. significant work for a short term, interim arrangement
- Significant costs to replicate systems that are in place, for example, Standard Operating Model and taking on of fleet
- Not distracting from other major transformation projects especially the ongoing restructure of existing Street Services activity and the work of Integrated Health and Well Being.

5.17 Taking the service in-house would require consultations with Unions and HR on TUPE transfer and with the associated statutory periods and stakeholder engagement considerations, delivery of this solution has been estimated would take around 9-12 months for what may be conceivably only a further 16 months, if the Council is to align itself with the Peninsula development.

5.18 There is also the cost of the team that would need to be assembled to return the service to the Council. This is estimated at £200k as a Project Manager would be required along with in kind support from Subject Matter Experts in Highway Maintenance, Engineering, Procurement, Finance, Business Support, ICT and Legal, the latter would likely require external advice, estimated to be of a similar amount, circa £200k, based on previous in-sourcing of this type.

5.19 At a Council-wide level, capacity is limited for an exercise of this scale in professional and back office support during a Transformation Programme that is aimed at delivering new ways of working and meeting the Council's financial challenge. It is plain to see that key services are under considerable pressure around prioritisation. There is also the matter of the Council's own reputation, should an in-sourcing not be successful and this would come hard on the heels of other high profile changes, for example, Waste Collection Reorganisation, that will test the Council's preparations for managing change effectively and co-operatively.

- 5.20 Additionally, the cost of leasing a comparable fleet of highways vehicles and plant is estimated to be £375,000 per annum. The cost of purchasing a fleet of vehicles is estimated to be around £1.78 million, although this option would likely not represent good value for money given the short term nature of the in-house arrangement.
- 5.21 It also has to be argued that whilst an in-house service could be flexible and presents the opportunity for the Council to shape the service, the idea that it would be blessed with innovative ideas and new technologies is unrealistic. As the lack of innovation was one of the main reasons for adopting the current model is the first instance.
- 5.22 Lastly, it is estimated that the costs associated with a wholly in-house delivery vehicle would be more costly when directly compared to other options, largely due to the setting up of new staff members in the Local Government Pension Scheme following TUPE, training costs, and the variance in staff terms and conditions. A detailed analysis would be required to determine the true cost and value for money as there are other considerations such as the transfer or procurement of plant, the novation of miscellaneous contracts and other material issues. However, the sums will not be small.
- 5.23 The table below summarises the risks that have been presented above. Possible mitigation is also presented.

	Issue	Descriptor (Risk)	Mitigation
1	Time constraints	The Council is currently in Contract with Amey until the 30 th November 2015. The choices are; that the service returns to the Council on 1 st December 2015 or an extension is agreed to enable a timed transition to an as yet unidentified model for future service delivery. These issues are discussed in greater detail in the body of this report. The risk of a twelve month procurement or return to in-house delivery is that we have an interim solution that is time consuming and not fit for purpose, it is likely that considerable resource would be required on two fronts, interim and continued long-term model development.	Re-procurement will require considerable resource and the Council have yet to agree the preferred delivery model of future service provision. Extending the Amey contract to March 2017 will enable the Council to make a smoother transition to the new model and be better placed to look at the opportunities afforded through SWHA regarding co-procurement and possible delivery.
2	Capacity	Given the timeframe outlined in 1 above, there are risks associated with seeking to procure an interim service if the Amey contract were to be terminated next year. Whilst the timeframe would make it possible, there are considerations regarding the greater risks of exiting the current contract, seeking to define and procure another whilst trying to maintain service delivery expectations. Reputational damage could result from the combination of competing priorities and insufficient capacity whilst trying to meet this timeframe.	As the new model has yet to be defined and agreed, an extension to March 2017 would provide a suitable timeframe to put in place the resources and ensure that the opportunities afforded through SWHA can be exploited in the coming months / years. A number of SW Councils will be re letting their contracts in the next two years.

3	Costs	Returning services in house have cost implications for the Council, TUPE, Fleet, H&S, training etc. Whilst some of these costs can be absorbed there are some that are not immediately evident and subject to decisions that have yet to be made. A desktop exercise has reviewed the potential issues and the probable impact on service delivery, with the duration and the requirement of additional resource (HR, Management, etc.) probably being required for up to two years.	Extending the Amey contract enables the Council to work with defined costs as these are to a large extent prescribed and in place. The time provided will enable the Council to determine the long term model that it prefers and address the big cost item issues through detailed cost analysis
4	Integration	Street Services, as a new Department is focussed on delivering the savings, efficiencies and customer service focus objectives set out in the CBCSS. There are currently contractual constraints regarding areas of delivery and aspirations for integrating and improving service delivery, achieving better VfM, efficiency etc. has yet to be fully realised, identified and embedded.	Development on integrated services has started and opportunities will continue to be presented. The new highways service will be tailored to meet the changing nature of service delivery.
5	Knowledge	The Council will not have delivered Highways Services for seven years and there may be a knowledge gap in terms of operational efficacy. As in 3. This could be an issue that requires interim measures to ensure that the Authority does not suffer, reputationally, in the event of a contractual transfer in 2015.	The breadth and depth of the in-house client will be determined ultimately by the nature of the model that is adopted. Once a decision has been made on which option is preferred, measures can be put in place.
6	Asset management	Amey has undertaken work in developing an asset management approach to the council's highways infrastructure. This includes the collection of asset data, deterioration modelling and the development of lifecycle plans. However, there may still be insufficient information for a new provider to cost services as a full picture of the condition of the asset is still not clear. The Gaist Survey work which is due for completion shortly, will rectify this.	Ensure that information provided by the asset survey provides an accurate picture of the highways carriageway and footway asset and that the data is properly managed and updated in the future. Ensure that asset management arrangements are in place following the recommendations of the HMEP's guidance contained Highway Infrastructure Asset Management Guidance [HMEP 2013].

7	Programme, specification and client functions	It is yet to be decided (this report is part of the decision making process) what model / s the Council wish to pursue and what is most likely to deliver the CBCSS outcomes. Given that there are opportunities regionally to improve VFM through joint procurement etc., and to drive efficiencies through commercial enterprise, the Council are not presently best placed to appraise upcoming opportunities and exploit these prospects.	A dedicated project team needs to be established to lead on the procurement and delivery of the future model. A timeframe of 2017 will give the Council the best opportunity to work with the SWHA and develop the SS service to ensure the right mix of provision and opportunity is in place.
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It is considered that all criteria outlined in 3.13 above is met with this option, with the exception of i and v.

6 CONCLUSIONS

- 6.1 The Council needs to take its time in considering the way forward for Highway Maintenance Services. The Peninsula initiative through the South West Highways Alliance offers an opportunity to capitalise on several aspects of service delivery. There is an option to provide a holding position for the Council with some service improvement guarantees with the existing provider.
- 6.2 The Council should carefully analyse options for a long term solution including exploring joint procurement with the South West Highways Alliance members, organisational forms, continuing competitive market pressure, the level of flexibility required etc. all of which impact on the economic value of the final solution. Suitable options need to be assessed against corporate policy and the wider objectives of the council.
- 6.3 As stated in sections 4 and 5, there are a number of viable options for the delivery of Integrated Highways Services which the Council may wish to take forward for further consideration. A more detailed assessment will be necessary to establish with greater certainty of the relative merits of each. As a reminder, these are;
- Single Provider;
 - Joint Venture;
 - Multiple Providers (Contracts);
 - Arm's Length Organisation, and
 - Collaborative Solution.
 - In House Provision;

- 6.4 Each has significant benefit if the risks are sensibly managed. In addition it is possible, and more than likely considering the aspirations for new ways of delivering services, to combine the solutions and customise a hybrid solution which will more closely align with the Creating a Brilliant Co-operative Street Service. It should be noted that only the last option is for the short/medium term.

Appendix I

Current Services Delivered by Amey

Carriageway repairs	Repair of highway defects, e.g. potholes
Footway repairs	Repair of footway and cycleway defects, e.g. trips and potholes
Highway Inspections	Cyclic and reactive inspection of the highway to provide Section 58 defence
Road markings maintenance	Refreshing of white lines and yellow traffic regulation orders
Drainage	Inspection and clearance of roadside gullies and other highway drainage.
Structures maintenance	Cyclic inspections and maintenance of highways structures, e.g. retaining walls, bridges
Street Furniture	Maintenance of non-illuminated signs, safety fences, seating etc.
Intelligent Transport Systems	Maintenance of variable message signs, car park guidance, number plate recognition, traffic monitoring CCTV etc.
Carriageway Resurfacing	Resurfacing and micro-asphalting
Footway repairs	Repair of footway and cycleway defects, e.g. trips and potholes
Structures	Capitalised maintenance of highway structures
Flood defence	Various Environment Agency funded schemes
Other Schemes	Neighbourhoods, cycling and walking schemes etc.
Statutory Powers and Authorised Functions	Permits, enforcement etc. under Highways Act 1980, NRSWA 1991 etc.
Customer Service	Enquiries, correspondence, complaints and media

Contract Management (professional services)	Management of existing PCC contracts, e.g. Street lighting maintenance and traffic signal maintenance
Winter Service	
Network Operations	Traffic Signals and Network Control Centre, Watchman role coordination, network management

Provision and Operation of Offices and Depots
Quality Management
Performance Management and Measurement
Continual improvement Process
Data Management
Financial Management
Health, Safety and Environment Management
Service Management and Planning

Appendix 2

Highways Services Contract Payments to Amey - December 2008 to Date

Month	All Schemes/Services (excl. EETS)			East End Transport Scheme			Total Annual Spend (incl. EETS)		
	CAPITAL	REVENUE	CAP+REV	CAPITAL	REVENUE	CAP+REV	CAPITAL	REVENUE	CAP+REV
2008/2009 (from Dec)	£741,275	£1,448,418	£2,189,693	£0	£0	£0	£741,275	£1,448,418	£2,189,693
2009/10	£6,527,474	£4,224,016	£10,751,490	£1,031,781	£0	£1,031,781	£7,559,255	£4,224,016	£11,783,271
2010/11	£3,093,524	£4,515,722	£7,609,246	£9,302,789	£0	£9,302,789	£12,396,313	£4,515,722	£16,912,035
2011/12	£5,970,494	£5,279,898	£11,250,392	£5,776,683	£60,000	£5,836,683	£11,747,177	£5,339,898	£17,087,075
2012/13	£5,533,406	£6,276,305	£11,809,712	£0	£0	£0	£5,533,406	£6,276,305	£11,809,712
2013/14	£7,138,985	£5,484,462	£12,623,447	£0	£0	£0	£7,138,985	£5,484,462	£12,623,447
2014/15 (to Aug)	£3,159,102	£2,404,845	£5,563,947	£0	£0	£0	£3,159,102	£2,404,845	£5,563,947
Total	£32,164,261	£29,633,667	£61,797,927	£16,111,252	£60,000	£16,171,252	£48,275,513	£29,693,667	£77,969,180
		CAPITAL	REVENUE	TOTAL					
Average Annual Turnover (Excl. EETS)		£5,593,784	£5,153,681	£10,747,466					
Average Annual Turnover (Incl. EETS)		£8,395,741	£5,164,116	£13,559,857					

NB. Costs for 2014/15 are costs to August 2014. The anticipated final projected outturn for 2014/15 will be similar to those of 2013/14.

Appendix 3

Background Paper for Revised Highway Inspection Policy

1 Introduction

- 1.1 This report details the proposed changes and additions to Plymouth City Council's Highway Inspection Policy following a recent review.

2 Background

- 2.1 Since obtaining Highway Authority status in 1998, there have been a number of changes made to the frequency of inspections of highway maintainable at public expense, as well as changes to ward boundaries and the definition of a 'Safety Defect'.
- 2.2 Reviews of the inspection frequencies were undertaken in 1998, 1999 & 2009, taking into account the character of the highway, an analysis of the number of claims received for each ward and the pedestrian and vehicular usage. Additionally, in 1999 the definition of a safety defect was confirmed within the policy.
- 2.3 When Plymouth amended its ward boundaries, the policy was again reviewed with changes becoming operational in 2003. In addition to changes to the inspection frequencies, this brought the Maintenance Districts in line with the new political ward boundaries.
- 2.4 These changes to the policy demonstrated a review process, which considered the character of the highway, accident and incident history and the pedestrian and vehicular usage in line with the recommendations made in the '*Code of Practice for Highway Maintenance Management*' [Roads Liaison Group 2005] (the Code).
- 2.5 In 2011, the government launched the Highways Maintenance Efficiency Programme (HMEP) with the aim of helping the highways sector to maximise returns from investment in highway maintenance. Two key documents arising from the HMEP, '*Prevention and a Better Cure – Potholes Review*' [HMEP 2013], and '*Highway Infrastructure Asset Management Guidance*' [HMEP 2013], prompted a further review in 2013/14, which identified additions and changes which have regard for the recommendations contained in these documents.
- 2.6 The main changes are:

- The inclusion of a Carriageway, Footway and Cycle Route hierarchy to reflect the Authority's highways asset management approach
- Changes in the frequency of Safety Inspections to align with the new hierarchies
- Changes to the response times for attending to safety defects to better align the Council's approach with the recommendations of the HMEP

3 Addition of the Network Hierarchy

- 3.1 The Code describes the Network Hierarchy as the foundation of a coherent, consistent and auditable maintenance strategy. Plymouth City Council's network hierarchy will not only be the link between its maintenance policies and implementation, but it will also form the basis of other highway policies and maintenance strategies in the future.
- 3.2 The network hierarchy follows the recommendations of the Code by establishing a separate carriageway, footway and cycle route hierarchy, each reflecting the relative importance and functionality of the highway.
- 3.3 In the case of the Highway Inspection Policy, the Network Hierarchy is the basis for the proposed safety inspection regime.
- 3.4 The proposal for the Network Hierarchy can be seen in section 2 of the revised policy.

4 Changes to the Frequency of Safety Inspections

- 4.1 Highway safety inspections are routine cyclical inspections of the carriageway, footway, and cycle routes to identify any defects likely to create a danger or serious inconvenience to users of the network or the wider community. 'Safety defects' identified during such inspections are repaired or made safe as a priority.
- 4.2 The need for safety inspections stems from Section 41 of the Highways Act 1980, which places a duty on the Highway Authority to ensure that the highway is maintained such that it is safe for ordinary traffic.
- 4.3 By virtue of Section 58 of the Highways Act 1980, if an authority can prove that it had in place adequate policies and procedures to maintain the highway, and the policies and procedures were being performed, and there was no prior knowledge of a defect before the incident date, a third party liability claim arising from a highway defect can be repudiated.
- 4.4 Currently, the frequency of safety inspections is based largely on the historic claims data in each of the maintenance areas, the boundaries for each generally following the city's electoral ward boundaries. The exceptions are the city's main roads and shopping areas, which are inspected on a monthly basis.

- 4.5 The proposed safety inspection regime has regard to the recommendations of the Code, which dictates inspection frequencies for each of the carriageway, footway or cycle route types within the Network Hierarchy.
- 4.6 This is a significant change to the existing regime and will, in some cases, see an increase in the number of safety inspections undertaken in certain roads. This change will bring the Highway Inspection Policy in line with the recommendations of the Code, thereby providing a more robust 'Section 58 defence'.
- 4.7 In addition to the proposed changes to the inspection frequency, the revised policy also clarifies the inspection method adopted by highways inspectors, i.e. whether the inspections are walked or driven.
- 4.8 The proposal for the revised regime for safety inspections can be seen in section 3.2 of the policy.

5 Changes to Response Times for Rectifying Defects

- 5.1 Successive under-investment in highway maintenance in the past combined with the two harsh winters of 2010/11 and 2011/12 and the wettest winter on record in 2013/14, has led to widespread deterioration of the condition of the city's road network. As a consequence, Plymouth has seen a significant increase in the number of highway defects in recent years particularly in the numbers and sizes of potholes manifesting on the city's carriageway network.
- 5.2 The increase in highway defects, principally relating to the carriageway and footway surfaces, challenged the authority's ability to undertake permanent repairs. Instead, maintenance resources had been focussed on undertaking temporary repairs to ensure that the roads and footways were quickly made safe for users. The driving force behind this approach was the necessity to undertake repairs of Safety Defects within 24 hours, a recommendation of the Code.
- 5.3 These temporary repairs were often the subject of repeat visits as the combination of the poor condition of the surrounding road surface and the temporary nature of the repairs meant that they did not last for long when exposed to further adverse weather and large volumes of traffic. This was a poor use of resources which did not represent value for money. Furthermore, whilst temporary repairs reduced the risk of accidents or damage to vehicles in the short term, it built up a considerable backlog of work that exposed the infrastructure to more serious structural degradation over the longer term.
- 5.4 As well as being an uneconomical and inefficient way of working, undertaking temporary repairs had a negative impact on the reputation of the Council, and led to increased complaints and customer dissatisfaction.

- 5.5 In April 2013, the Council's highway maintenance contractor moved to a regimen of first-time permanent repairs, undertaking temporary repairs only where safety could not be managed using alternative approaches, or in emergency circumstances. This change of approach followed the recommendations of the HMEP's *Pothole Review: Prevention and a Better Cure* which recommends the adoption permanent repairs as the first choice.
- 5.6 Since its implementation, this approach has led to a reduction in the number of return visits. Over the longer term, it is hoped that the overall number of highway defects will start to reduce as repairs last longer, and the benefits of the Council's increasing investment in resurfacing and surface dressing take effect.
- 5.7 Moving to a regime of first-time permanent repairs requires more planning and programming in order that work can be undertaken in the most efficient manner. The traditional pothole repair process also takes longer than for that of a temporary repair, as the defect requires proper preparation before the hole is filled. Additional time is also required to ensure that particularly sensitive or potentially disruptive works can be communicated to other network stakeholders. Following discussions with the Council's highway maintenance contractor, a qualitative judgement has been made that it is reasonable to increase the response time for the repair of Safety Defects from 24 hours to 5 days as permanent repairs are more time consuming to put in place.
- 5.8 Whilst the increase in response time will mean that some repairs may take longer to complete, it is considered that this increased period of risk exposure would be less than that presented by the need to make repeat visits over a given period. It also represents a more efficient and cost effective method of working that has regard to the HMEP's *Pothole Review* and its guidance on *Asset Management*, both of which advocate properly planned, longer-term solutions to better protect the structural integrity of the highway asset and provide better value for money.
- 5.9 Whilst many authorities have adopted the guidance for response times set out in the Code, some have extended these times to make first time permanent repairs, and reduce the need for temporary repairs, e.g. Northamptonshire County Council
- 5.10 Whilst increasing the timescale for repairing defects deviates from the recommendations of the Code, it should be noted that the code does not set out mandatory rules. Therefore, whilst following the Code is evidence of good practice it is clear that Authorities must exercise their own judgement based on local needs.

- 5.11 The extended timescales for repairs will allow a permanent repair approach for a significant percentage of identified safety defects. These repairs should last significantly longer, depending on road usage, until such time that affected roads can be resurfaced or surface-dressed as part of the Council's annual capitalised maintenance programme.
- 5.12 The proposal for the revised response times can be seen in section 5.3 of the revised policy.

6 Reviews and Amendments

- 6.1 The ongoing number of identified safety defects will be closely monitored to measure the effectiveness of the proposed changes to the policy. Additionally, highways officers will meet twice yearly to highlight changes on the network that may impact upon it.
- 6.2 The policy will also be reviewed every three years, or sooner if required by a change in law, updated national guidance or where local circumstances change. Changes will be approved by the Cabinet Member for Transport by delegated decision.

7 Conclusion

- 7.1 The implementation by the Council of a transparent and robust highway inspection regime is an essential element in maintaining its duty under Section 41 of the Highways Act 1980, and in providing its Section 58 defence.
- 7.2 This most recent review of the Highway Inspection Policy, undertaken in light of the government's latest advice affecting the management and maintenance this most important of assets, ensures that the Council can continue to manage and mitigate risk against the background of changing circumstances and priorities.

Highways Inspection Policy

1 INTRODUCTION

- 1.1 The establishment of an effective regime of inspection, assessment and recording is the most crucial component of highway maintenance. The inspection regime provides the basic information for addressing the first core objective of highway maintenance, network safety.
- 1.2 This policy defines Plymouth City Council's regime for managing highway safety defects, and has regards to '*Well-maintained Highways: Code of Practice for Highway Maintenance Management July 2005*' (CoP), and the Highways Maintenance Efficiency Programme (HMEP) publications '*Prevention and a Better Cure – Potholes Review*' [HMEP 2013], and '*Highway Infrastructure Asset Management Guidance*' [HMEP 2013]. The characteristics of the regime include the frequency and methods of inspection, items to be recorded, and the nature of response.
- 1.3 In line with the recommendations laid out in the CoP, Plymouth City Council's regime has been modified in the light of particular local circumstances, and the relative risks and consequences associated with these.

2 LEGAL FRAMEWORK

- 2.1 The Council has a statutory duty to maintain the highway under Section 41 of the Highways Act 1980.
- 2.2 For there to be a breach of section 41 there must have been a failure to maintain or a failure to repair. A Statutory defence to a potential breach of Section 41 is afforded to the Council by virtue of Section 58 of the Highways Act 1980. The Council needs to be able to prove that such care has been taken as in all the circumstances was reasonably required to secure that the highway was not dangerous to traffic.
- 2.3 This is normally proved by the Council having a reasonable system of routine inspections in place and with due regard to Section 58 of the Highways Act 1980.

3 NETWORK HIERARCHY

Plymouth's Network Hierarchy

- 3.1 Plymouth City Council has developed a Network Hierarchy that reflects the importance and functionality of its highway. The Network Hierarchy follows the recommendations laid out in CoP, and has three components: a Carriageway Hierarchy, a Footway Hierarchy; and a Cycle Route Hierarchy.

Carriageway Hierarchy

3.2 The Carriageway Hierarchy is defined in Table 3.1, below. In assigning roads and road sections to a particular category, local factors have been considered. These include:

- road classification
- historic accident data and other risk assessment
- traffic flows
- functionality

Table 3.1 - Carriageway Hierarchy		
Category	Hierarchy Description	Type of Road General Description
1	Motorway	Limited access motorway regulations apply
2	Strategic Route	Trunk and some Principal "A" roads between Primary destinations
3a	Main Distributor	Major Urban Network and inter-primary Links. Short-medium distance traffic
3b	Secondary Distributor	Classified Roads (B and C class) and unclassified urban bus routes carrying local traffic with frontage access and frequent junctions
4a	Link Road	Roads linking between the main and secondary distributor Network with frontage access and frequent junctions
4b	Local Access Road	Roads serving limited numbers of properties carrying only access traffic

Footway Hierarchy

3.3 The Footway Hierarchy is defined in Table 3.2, below, and has been determined by the functionality and scale of use of the city's footways. In assigning footways to a particular category, local factors have been considered. These include:

- relative pedestrian volumes
- historic accident data and other risk assessment
- age and type of footway
- character and traffic use of adjoining carriageway

Table 3.2 - Footway Hierarchy		
Category	Category Name	Brief Description
1a	Prestige Walking Zone	Prestige Areas in towns and cities
1	Primary Walking Route	Busy urban shopping and business areas, main pedestrian routes linking interchanges between different modes of transport, railways, bus termini, main bus routes etc.
2	Secondary Walking Route	Medium usage routes through local areas feeding into primary routes, local shopping centres, large schools and industrial and commercial centres etc.
3	Link Footway	Linking local access footways through urban areas and busy rural footways
4	Local Access Footway	Footways associated with low usage, short estate roads to the main routes and cul-de-sac.

Cycle Route Hierarchy

3.4 The Cycle Route Hierarchy is defined in Table 3.3, below, and reflects the risks associated with shared, partially segregated and fully segregated cycle routes.

Table 3.3 - Cycle Route Hierarchy	
Category	Description
A	Cycle lane-forming part of the carriageway, commonly 1.5 metre strip adjacent to the nearside kerb. Cycle gaps at road closure point (exemptions for cycle access).
B	Cycle track, a route for cyclists not part of, or adjacent to, the public footway, or carriageway, but within the highway boundary. Shared cycle/pedestrian paths, either segregated by a white line or other physical segregation, or un-segregated
C	Cycle trails, leisure routes through open spaces eg parks. Those forming part of the public highway, but not on or adjacent to the metalled highway.

4.0 SAFETY INSPECTIONS

Planned inspections

- 4.1 Safety inspections are designed to identify all defects likely to create a danger or serious inconvenience to users of the network or wider community, i.e. safety defects.
- 4.2 Safety inspections of carriageways designated categories 2, 3a and 3b in the Carriageway Hierarchy are driven inspections. Such inspections are always undertaken by two people in a suitable vehicle travelling at a speed of 20 mph or below that will enable the passenger to adequately record defects.
- 4.3 Safety inspections of carriageways designated categories 4a and 4b in the Carriageway Hierarchy may be undertaken on foot by one inspector, if the person is walking on a footway.
- 4.4 Safety inspections of all categories of footways in the Footway Hierarchy are walked inspections. Such inspections may be combined with inspections of carriageways designated categories 4a and 4b in the Carriageway Hierarchy.
- 4.5 Cycle routes designated category A in the Cycleway Hierarchy, and which form part of the carriageway, will be inspected in accordance with the methods and frequencies adopted for safety inspections of the carriageway.
- 4.6 Cycle routes designated category B in the Cycleway Hierarchy will be inspected in accordance with the methods and frequencies adopted for safety inspections of the footways.

- 4.7 Cycle routes designated category C in the Cycleway Hierarchy will be inspected annually on foot.
- 4.8 Safety inspections are undertaken in accordance with the frequencies of inspections detailed in Section 4.2 of this policy and are aligned to Plymouth's Network Hierarchy.
- 4.9 Highway verges will form part of the regular safety inspection regime, when evident hazards will be considered by the Safety Inspector.

Safety inspection frequency

- 4.10 The safety inspection frequencies in Table 4.1 are based upon the categories within the network hierarchies, and align with the recommendations of the CoP.

Table 4.1 – Safety Inspection Frequency			
Feature	Description	Category	Frequency
Carriageways	Strategic Route	2	1 month
	Main Distributor	3a	1 month
	Secondary Distributor	3b	1 month
	Link Road	4a	3 months
	Local Access	4b	1 year
Footways	Prestige Area	1a	1 month
	Primary Walking Route	1	1 month
	Secondary Walking Route	2	3 months
	Link Footway	3	6 months
	Local Access Footway	4	1 year
Cycle routes	Part of Carriageway	A	As for carriageways
	Remote from Carriageway	B	As for footways
	Cycle Trails	C	1 year

- 4.11 Where carriageway and footway hierarchies intersect at pelican or zebra crossings, or other uncontrolled crossing points at junctions, the footway hierarchy always takes precedence. This principle also applies to intersections between carriageways and cycle routes, and between cycle routes and footways.

5.0 ADDITIONAL INSPECTIONS AND EXCEPTIONAL CIRCUMSTANCES

Reactive Inspections

- 5.1 Additional inspections may be necessary in response to user or community concern, as a result of incidents, extreme weather conditions or monitoring information. The occurrence of any such inspection and its outcome is recorded in the same format as a programmed Safety Inspection but is recorded as being an additional inspection.
- 5.2 An appropriate person with the relevant experience and knowledge responds to user or community concerns and requests for service. Based upon the urgency of the situation, a site visit is made to make a more thorough assessment of the safety or service request. The defects are assessed with the same criteria and intervention levels as those within the programmed Safety Inspection process.

Inspections undertaken in accordance with the New Roads and Street Works Act 1991(NRSWA)

- 5.3 Section 81 of the NRSWA places a duty on undertakers (utilities) to maintain their apparatus to the reasonable satisfaction of the Highway Authority.
- 5.4 When an inspection identifies a particular piece of apparatus that is deemed to be defective and requiring attention, notification will be sent to the appropriate party within 24 hours requiring them to carry out remedial action under Section 81 of the Act. This notification should detail the apparatus and its location complete with maps, postcode and grid reference as necessary.

Exceptional Circumstances

- 5.5 In exceptional circumstances, it may not be possible to undertake inspections and/or repairs, e.g. during periods of extreme weather. In these circumstances, the Safety Inspection policy may be suspended. The authority for such action lies with Plymouth City Council's Assistant Director for Street Services or other officer acting in lieu.

6 SAFETY DEFECTS

Defect definitions

- 6.1 Plymouth City Council defines highway defects in two categories:
- Category 1 – those that require prompt attention because they represent an immediate or imminent hazard or risk to life or serious injury, or are likely to create a danger or serious inconvenience to users of the network or wider community
 - Category 2 – all other defects.
- 6.2 Safety defects are considered to be Category 1 defects. Category 2 defects are not considered in this policy.

Intervention criteria

- 6.3 Plymouth City Council has adopted the criteria as laid out in the *Audit Commission Performance Indicator Guidelines* and the Kindred Association Report '*Highways Liabilities Claims*' to define its intervention levels for Category 1 defects. These are defined in Table 6.1, below.

Table 6.1 - Category 1 Defect Intervention Levels	
Footways and Cycle Routes	
Trip	Trip greater than 20mm depth.
Pothole	Resulting in trip of greater than 20mm depth.
Rocking slabs/ironwork	Resulting in trip of greater than 20mm depth.
Cracks/gaps	Crack/gap with both depth and width being greater than 20mm. (NB if only the depth or the width is greater than 20mm then this does not constitute a safety defect.
Rapid change in profile	A change in profile giving a depth greater than 25mm in a length of less than 600mm
Carriageways	
Potholes	Depth greater than 40mm and maximum width greater than 300mm.
Sunken covers/ironwork	Depth greater than 40mm below surrounding surface or frame and maximum width greater than 300mm.

Missing ironwork	All missing ironwork
Exposed electrics	Exposed electrics to highways apparatus.
Missing/damaged hazard signs	All missing, damaged and faded regulatory signs.
Road markings	All white lines that have worn to 30% of specified dimension.

Response times for Safety Defects

- 6.4 Table 6.2 defines the performance requirements for responding to Category I defects.

Table 6.2 – Performance requirements for Category I defects		
Type of Defect	Hazard Mitigation Period	Permanent Repair Period
Defects which, in the inspector's judgement, and having regard to position and locality, pose an imminent risk to life or serious injury	2 hours	24 hours
All other Category I Defects	5 days	

- 6.5 In order to determine the relevant response times for individual safety defects, safety inspectors will use their judgement to assess the risk and severity posed by each defect.
- 6.6 Where possible, the Council will carry out a permanent repair when a Category I Defect is identified or, in the case of a third party report, verified. If this is not possible the Council will make the Category I Defect safe, or will otherwise put in place protective measures, within the Hazard Mitigation Period, and will make a permanent repair within the Permanent Repair Period as set out in table 6.2.

7 REVIEWS AND AMENDMENTS

Frequency of reviews

- 7.1 The Safety Inspection Policy is reviewed every three years, or sooner if required by a change in law, updated national guidance or where local circumstances change. Changes are approved by the Cabinet Member for Transport by delegated decision.

7.2 Additional meetings are held twice yearly to highlight changes on the network arising from:

- new developments
- accidents
- claims
- defects

Appendix 4

Options Comparison Table

Delivery Options	Considerations	Strengths	Weaknesses	Opportunity	Key Risks	Delivery Timeframe
Short/Medium Terms Options						
1. Extension of existing MAC (present terms and conditions)	<ul style="list-style-type: none"> Compliance with Procurement Regulations Contract Conditions. Stakeholder Views. 	<ul style="list-style-type: none"> 'Known quantity', Builds upon improving performance. Knowledge of issues and priorities Staff, direct labour (including supply chain) and resources (vehicles, plant, equipment IT systems and software, accommodation etc) already in place Established working relationships Extensive local knowledge Service continuity Opportunity to integrate with new Street Services provision Existing resources can focus on service delivery improvements, rather than fundamental delivery model transition 	<ul style="list-style-type: none"> End date of contract established early with no incentive to extend based upon performance Provider exit strategy may impact on service delivery Existing operating model remains unchallenged. 	<ul style="list-style-type: none"> Negotiate change with contractor. Test new ways of working 	<ul style="list-style-type: none"> Extension by mutual agreement, not a contractual entitlement or instruction – so low risk of contractual non-compliance. Small risk of potential challenge, Credibility with key stakeholders. 	NA
2. Extension of Existing MAC (revised contract terms and conditions)	<ul style="list-style-type: none"> Compliance with Procurement Regulations Contract Conditions. Stakeholder Views. 	<ul style="list-style-type: none"> 'Known quantity', Builds upon improving performance Enables operating model issues associated with areas of poor service provision to be addressed via the contract terms Allows development of new performance measures 	<ul style="list-style-type: none"> End date of contract established early with no incentive to extend based upon performance Provider exit strategy may impact on services Extent of change limited in order to minimise risk of challenge – thus existing operating model remains largely 	<ul style="list-style-type: none"> Greater opportunity to negotiate change with contractor. Test more extensive new ways of working Address via the contract issues of key stakeholders 	<ul style="list-style-type: none"> Extension by mutual agreement, not a contractual entitlement or instruction – so low risk of contractual non-compliance. Small (but slightly greater) risk of potential challenge, Will need Provider's agreement to any changes Contract needs to remain 	N/A

		<ul style="list-style-type: none"> • Knowledge of issues and priorities • Staff, direct labour (including supply chain) and resources (vehicles and plant, IT systems and software, accommodation etc) already in place • Established working relationships • Extensive local knowledge • Service continuity • Opportunity to integrate with new Street Services provision • Existing resources can focus on service delivery improvements, rather than fundamental delivery model transition 	unchallenged		viable for Provider	
3(a) In House Solution	<ul style="list-style-type: none"> • Suitability of Skills and Competencies of staff. • TUPE obligations. Conditions/requirement (salary, leave sickness & annual, working hours, pensions and benefits). Pensions status (Admitted body?) • Treatment of plant, short/long term strategy, Client side role and function and statutory duties 	<ul style="list-style-type: none"> • Offers flexibility in terms of time frames, suitable for 'temporary arrangements', • Offers long and short-term 'control'. • Can address directly areas of poor service delivery. 	<ul style="list-style-type: none"> • Cultural issues, no recourse, short term only. • Could be hard to achieve real savings. • Budget pressures restrict potential for investment. • Lack of access to Private Sector Expertise. 'partnering' opportunity limited. • PCC would need to provide training and management • Will need to procure for larger scale works, e.g. resurfacing programme 	<ul style="list-style-type: none"> • Offers chance to put interim solution in place and work on long term strategy going forward. 	<ul style="list-style-type: none"> • Perception of return to the 'business as usual'. • Increase in costs. • Definition of client side and delivery could become confused leading to lack of accountability. • Risk of Procurement challenge as it was established as outsourced • Potential for two-tier workforce • Key staff may elect not to TUPE transfer from the Provider 	9 -12 months
3(b) Holding Company	<ul style="list-style-type: none"> • Suitability of Skills and Competencies of staff for the 'Intelligent Client'. • Initial set up costs of a holding company • TUPE obligations. Conditions/requirement (salary, leave sickness & annual, working hours, pensions and benefits). 	<ul style="list-style-type: none"> • Offers flexibility in terms of time frames, suitable for 'temporary arrangements', • Offers level of control, but less than in 3(a), above. • Less HR/establishment risk to the Authority • Less restrictions in 	<ul style="list-style-type: none"> • Cultural issues may be more pronounced as two organisations. • Could be hard to achieve real savings. • Budget pressures restrict potential for investment. • Lack of access to Private Sector Expertise. 	<ul style="list-style-type: none"> • Offers chance to put interim solution in place and work on long term strategy going forward. • Easier to manage service, can be a flexible interim and shape the service, could 'trial' ideas, can be modernised with SLA type conditions and KPIs. 	<ul style="list-style-type: none"> • Key staff may elect not to TUPE transfer from the Provider • Potential for multi-tier workforce • Definition of client side and delivery could become confused leading to lack of accountability. • Risk of Procurement 	9 -12 months

	Pensions status (Admitted body?).	addressing HR/staffing issues	'partnering' opportunity limited. <ul style="list-style-type: none"> Slightly less control over decision making. Holding company would need to provide training and management Will need to procure for larger scale works, e.g. resurfacing programme 		challenge as it was established as outsourced <ul style="list-style-type: none"> 	
3(c) Tendered Partner	<ul style="list-style-type: none"> Tendering exercise for TMC Suitability of Skills and Competencies of staff for the "Intelligent Client". TUPE obligations. Conditions/requirement (salary, leave sickness & annual, working hours, pensions and benefits). Pensions status (Admitted body?). 	<ul style="list-style-type: none"> Some access to Private Sector Expertise. 'partnering' opportunity limited. Fresh start! Less restrictions in addressing HR/staffing issues Potentially offers better value for money Can package works to suit Council's requirements 	<ul style="list-style-type: none"> Cultural issues may be more pronounced as two organisations. Slightly less control over decision making. Tendering process required to select partner 	<ul style="list-style-type: none"> Offers chance to put interim solution in place and work on long term strategy going forward. Easier to manage service, can be a flexible interim and shape the service, could 'trial' ideas, can be modernised with SLA type conditions and KPIs. 	<ul style="list-style-type: none"> Key staff may elect not to TUPE transfer from the Provider Lack of interest from the market 	9 -12 months
Long Term Options						
3. Single Provider	<ul style="list-style-type: none"> Needs to be consistent with City Policy & Strategy. Time taken to procure. Need to consider performance reqt's of new contract. Client side arrangements and management. 	<ul style="list-style-type: none"> Simplified contract management, better accountability. Clearly branded one-stop shop. May offer scope for reasonable savings with some contract forms. 	<ul style="list-style-type: none"> Potential lack of credibility with key stakeholders after poor performance of previous arrangement. Limited scope for redress if things 'go-wrong'. Still requires 'intelligent' client. 	<ul style="list-style-type: none"> Opportunity to start again with a new relationship with a new contractor. Redefine scope, Easy to set up contract management 	<ul style="list-style-type: none"> Main risk around exclusivity and effect of service quality. If managed properly main risk can be transferred over to contractor. 	18 – 24 months
4. Joint Venture	<ul style="list-style-type: none"> Needs to be consistent with City Policy & Strategy. Time taken to procure. Potential workload for new JV and effect on business plan. 	<ul style="list-style-type: none"> Access to Private Sector Expertise without relinquishing full control. Potential income through dividend and external work. Savings on in-house team 	<ul style="list-style-type: none"> More complicated procurement and legal requirements. 	<ul style="list-style-type: none"> Redefine scope. Change to create 'trading co' opportunity to create additional revenue stream. 	<ul style="list-style-type: none"> High emphasis on 'partnering', hard to terminate if it goes wrong. Potential tension between JV partner due to commercial pressures. 	18 - 24 months
6 Multiple Providers.	<ul style="list-style-type: none"> Needs to be consistent with City Policy & Strategy. Time taken to procure. How contracts are 	<ul style="list-style-type: none"> Spreads risk across a range of providers. Potential for more local suppliers and SME's bidding. 	<ul style="list-style-type: none"> Complicated contract management and interface issues. Expensive to procure and administer. 	<ul style="list-style-type: none"> Redefine scope. Develop new positive relationship with the supply chain. 	<ul style="list-style-type: none"> Increased costs due to reduced economies of scale. Inconsistent delivery quality across numerous 	12 - 24 months.

	<p>packaged.</p> <ul style="list-style-type: none"> Contract management arrangements, potential novation of existing supply chain from Amey? 	<ul style="list-style-type: none"> Keen pricing through competition on an on-going basis 	<ul style="list-style-type: none"> Lack of 'critical mass' on an individual package basis means poor commercial deal. Difficult to drive savings through collaboration. 		<p>contracts.</p> <ul style="list-style-type: none"> Delivery risk remains with the council. 	
7 Arms Length Organisation.	<ul style="list-style-type: none"> Needs to be consistent with City Policy & Strategy. Time taken to procure. Specialist skills necessary to set up and then run. 	<ul style="list-style-type: none"> Potential cost savings through efficiencies. Company set up to deliver council policy. Run on a commercial basis. 	<ul style="list-style-type: none"> Lack of access to private sector expertise. Lack of skills available to run such an organisation in the council. No access to innovation or best practice outside the council. 	<ul style="list-style-type: none"> Potential income stream through external work. Potential to 'flex' to meet changing requirements. 	<ul style="list-style-type: none"> All delivery risk retained by council. Compliance with 'Teckal' test and procurement regulations. Potential effect on New Company viability of legacy liabilities. 	12 - 15 months
8 Private Funding Model	<ul style="list-style-type: none"> Needs to be consistent with City Policy & Strategy. Time taken to procure. Specialist skills necessary to set up and then run. 	<ul style="list-style-type: none"> Access to private sector expertise and capital. Overcomes funding challenge for 'capital intensive' projects. 	<ul style="list-style-type: none"> Concerns over best value. Inflexible model. Difficult to change. Lack of access to PFI credits. Expensive to deliver and administer. 	<ul style="list-style-type: none"> Potential to address any maintenance backlog. 'Off Balance Sheet' funding model. 	<ul style="list-style-type: none"> Lack of support from Central Govt. May not support the Council's long term reqt's. Significant risk of process failing. 	36 months
9 Collaborative Solution.	<ul style="list-style-type: none"> Needs to be consistent with City Policy & Strategy. Time taken to procure. Extent of collaboration that is appropriate to the Council. 	<ul style="list-style-type: none"> Flexibility of supply chain and delivery. Costs savings through shared service and or procurement. Flexible model that can be adapted to suit changing reqt's. 	<ul style="list-style-type: none"> Pay management fee for nothing, reduced 'economies of scale' Lack of local accountability. Challenges in establishing a firm consensus among partners. Costs of development. 	<ul style="list-style-type: none"> Develop supply chain. Opportunity to share costs and knowledge with other authorities. Potential to drive out social benefits from procurement. 	<ul style="list-style-type: none"> Major risk around lack of consensus between partners. Framework is not used when launched. 	18 months.

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PLYMOUTH CITY COUNCIL

Subject:	Finalisation of the Land Transfer Agreement to transfer areas of South Yard from MOD to Plymouth City Council as part of City Deal
Committee:	Cabinet
Date:	9 December 2014
Cabinet Member:	Councillor Evans
CMT Member:	Anthony Payne (Strategic Director for Place)
Author:	Mark Turner, MIPC South Yard Project Manager
Contact details:	Tel: 01752 304991 Email: mark.turner@plymouth.gov.uk
Ref:	MTDec14
Key Decision:	Yes
Part:	I

Purpose of the report:

This report seeks approval to proceed with the finalisation of a Land Transfer Agreement to transfer areas of South Yard from MoD to Plymouth City Council as part of the City Deal and presents a high-level vision and master-plan of the future South Yard MIPC site which seeks to safeguard and enhance its historic legacy. The report presents a summary of the results of feasibility, site investigations and master-planning work which has been ongoing throughout 2014 and summarises the status of land transfer negotiations with the MoD to effect the transfer of parts of HM Naval Base South Yard to Plymouth City Council for redevelopment as a Marine Industries Production Campus (MIPC) in line with the Plymouth and South West Peninsula City Deal Agreement.

The Council, the MoD and the Navy have been in discussions for many years with regard to the future of South Yard and its potential to be released to the City for redevelopment. As part of the City Deal Agreement, this transfer can now finally become a reality which provides an outstanding and unique opportunity to create a new marine industries production campus (MIPC) within and for the City.

This campus will complement the region's key strength in the marine and advanced marine research and manufacturing sectors. The South Yard site will provide new employment space along with access to deep water jetties and docks, thereby enabling marine sector companies to undertake a range of research, development and general commercial marine activities.

Taking over and redeveloping over seven hectares of the South Yard site will be very challenging with many uncertainties and inherent and often unquantifiable risks to be overcome. The site will take many years to fully redevelop but will ultimately make a substantial contribution to the local economy through the creation of over 1,200 specialist and highly skilled local jobs for Plymouth and wider region. It is estimated that the gross value added (GVA) to the economy by the site will be £136.7m per annum when fully developed.

To initiate the redevelopment process, market the campus site and create employment opportunities from the outset, the report proposes the development of a business case to immediately begin direct development on the site on the eastern area of South Yard Area 1 site. This initial development will create high-quality office space and a number of hybrid office/workshop units with flexibility to accommodate marine related design, training, technology development, laboratory and testing facilities which are estimated to create over 150 jobs, along with construction jobs and apprentices.

To safeguard the Naval Heritage Collection already in the South Yard site, the Council has provided a commitment that the Collection will remain on site in South Yard until an alternative arrangement is agreed between the MoD and Plymouth City Council.

The future South Yard MIPC master-plan will, when delivered, convert over 10,000m² of existing building floor space for marine related employment use and provide over 15,000m² of floor space in new buildings. It is anticipated that this employment space will be used for marine consultancies; design, research and development; laboratories and production; hi-tech fabrication, repair and assembly; and other waterside, dock and support activities.

In addition to the direct benefits resulting from new business and employment, South Yard's business activity will have a positive secondary benefit for the local area in terms of general spending and in helping to sustain existing inter-related marine, manufacturing and research related business activity already present in the City through such aspects as more effective and local supply chain management. Once developed the MIPC should also contribute to the South West region's Marine Energy Park concept to help support the wider marine renewable energy sector and hence contribute to the wider economic benefit of the SW region.

The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:

The creation of a MIPC in the City will directly contribute towards achieving the City's Vision of Plymouth becoming one of Europe's most vibrant waterfront cities and it will be delivered by the Council providing strong leadership and working in partnership with our City Deal partners, local community and the private sector.

The creation of a MIPC will also contribute to the Council's core objectives as follows:

Growing Plymouth – the regeneration of South Yard as a marine industries production campus will create many new jobs for the City, most of which will be highly skilled in specialist marine sectors. In addition the MIPC will facilitate economic investment and growth opportunities by attracting local, national and international marine related companies and organisations to the area.

Confident Plymouth – South Yard is a spectacular historic maritime site which, following its transfer from MoD to Plymouth City Council, will ultimately become a key specialist marine employment and production campus for the City and will further enhance the City's reputation as a world class centre for marine research, development, design innovation and engineering.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land:

The decision to proceed with the land transfer of areas of South Yard to the Council for development as a Marine Industries Production Campus will have capital, revenue, land and resources implications.

Land

Heads of terms for the land transfer agreement have been agreed such that it is intended to transfer 7.4 hectares of South Yard from MoD to the Council in three phases conditional on providing continuity of operational service provision and maintaining security for the MOD retained estate.

The timing of land transfers are provisionally targeting Area 1 East in March 2015, Area 1 West by April 2016 and Area 5 by April 2017 and the transfers will be for freehold of Area 1 East and a long leasehold (299 years) of the remaining site areas. Licences and rights will be established for each party whilst the separation works are ongoing.

Designated employment uses will be permitted on all three transferred sites although there will be conditions, constraints and protocols attached to developing the site in the future recognising the MoD's Warships in Harbour requirement to safeguard site occupants from berthed warships carrying armaments.

The transfer agreement will include terms for reimbursement of MoD separation costs, any existing land value and for the sharing of any development profits above a target level that covers the Council's costs of developing the project.

The Council will be responsible for covering any additional MoD security requirements revenue costs and there will be a commitment for the Naval Heritage Collection to remain in the South Yard site until an alternative arrangement is agreed between the MoD and Plymouth City Council;

The MoD has provided land quality assessments based on previous surveys but the MoD will not retain any liability for land contamination on the transferred site hence the Council will need to manage any site contamination that is found.

Although the above arrangements are not legally binding at this stage it is intended that parties will develop them into detailed legal agreements for completion before the end of March 2015 in line with the target date set out within the City Deal Agreement.

Capital and Revenue Implications

A financial business case model has been developed for the project which considers how the currently available capital funding will be spent and what further grant funding is needed by the Council to complete the separation and preparation of the site and undertake sufficient direct development such that the revenue costs for running the site are covered by income streams. This cost information is presented in the background report and is summarised below.

Capital

The City Deal Agreement provides for various capital funding allocations which are dependent on the Council taking on and progressing the South Yard site. These are set out below:

Available, agreed and bid funding sources for South yard MIPC development

Funding Source	Amount	Status
Plymouth City Council	£5m	Capital - approved
Department for Government and Local Communities (DCLG)	£4m (2015/16) £4m (2016/17)	Agreed as part of City Deal Agreement. To be a Section 31 capital grant
LEP (Growing Places funding)	£5m	Agreed as part of City Deal Agreement
Ministry of Defence (MoD)	Up to £1m	Agreed as part of City Deal Agreement.
LEP (New Growth Deal 2)	Up to £1.5m	Capital grant bid submitted (Nov 2014) for direct development
Total capital funding currently available	£19m + £1.5m bid	

Recognising the capital funding currently available (as shown above), a phased programme of works to develop the South Yard site is proposed. For the first five years this work will be prioritised on site separation and site preparation works across the whole site with some direct development in Area 1 proposed subject to a separate business case being approved early in 2015.

An envisaged spend profile for the next five years together with an estimate of works that can be currently funded is set out in the table below along with an estimate of the additional capital grant funding required to deliver further direct development in Area 1 which is ultimately needed to generate revenue income for the Council to offset revenue expenditure. Assuming all the additional grant required is obtained within the modelled time periods then the project has a pay-back period of between 25 and 30 years.

Summary table of capital expenditure on the South Yard MIPC site for next 5 years with assumed construction inflation at 4% per annum.

Works	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	Future years £,000	Total £,000
Total estimated capital expenditure of works above	£911	£3,314	£9,510	£6,063	£3,488	£16,288	£39,574
Funded by currently available City Deal funds (assuming £1.5m of New Growth Deal grant received)	Yes – all the above	Yes – all the above	Yes – all the above	Yes – all the above	Only £700k of the above	None of the above	
Additional capital grant required to deliver more Area 1 direct development				£4,004	£4,480		£8,484

Based on the cost modelling analysis a further £28m of public sector capital grant money is needed, in addition to the that already available, for the Council to fund the completion of site preparation and public works across the whole site and fund a substantial element of direct development in Area 1 in order to generate revenue income. Assuming all the additional grant required is obtained within the modelled time periods then the project has a pay-back period of between 25 and 30 years.

If this additional grant funding is not available then the development of the site could be taken forward by the private sector or development of the site by the Council can be slowed with areas of the site remaining unprepared for development and/or moth-balled for a period of time to reduce revenue costs on the Council.

Revenue

Based on the cost modelling which is built on a range of assumptions, it is estimated that there will be a net revenue impact on the Council which will need to be accounted for between 2015/16 and 2018/19 following which income will then exceed expenditure.

These revenue costs will fund aspects such as site management, MoD and site security, insurance, empty building business rates, loan repayments etc. These revenue costs will initially have to be fully met by Plymouth City Council although over time this revenue demand will be reduced and offset by rents, service charges and business rates received from organisations moving into the MIPC site.

All additional NNDR (Business Rates) generated from this project and detailed in this report will be captured as part of our GAME programme as part of the Growth Dividend work stream. This will then form a component part of the overall council resource envelope which is used to finance the council's priorities. One such priority will be ensuring adequate funding is available to support this project. For the purposes of estimating revenue income in this report it is assumed that these business rates will be used to support this project and therefore these are included within the Total Revenue Income (see table below).

A summary of estimated revenue expenditure and income over the next five years is shown in the table below although it must be noted that this is based on current information and a range of assumptions and is likely to change. Cost reductions and clarifications are still being explored along with the potential to capitalise some of these costs although in the meantime an allocation of £1m contingency has been requested in the MFTP to cover the estimated revenue liabilities between 2015/16 and 2018/19.

Summary table of total revenue expenditure and income over first five years

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Total Revenue Expenditure	26	152	1,043	1,037	1,096
Total Revenue Income	0	(23)	(448)	(703)	(1,303)
Net Revenue Position (assuming no capitalisation)	26	129	595	334	(207)

It should be noted that the positive net revenue position shown in the table above from 2019/20 onwards is based on a number of significant assumptions including that the Council receives more grant funding and progresses the majority of direct development across Area I West. Without this additional direct development to generate income the revenue position will remain adverse although there will be opportunities for the Council to reduce its liabilities and expenditure by such means as slowing down the development of the MIPC site and/or moth-balling development areas for a period of time.

Resources

Given that the first part of the South Yard site will transfer to the Council in April 2015, officers are reviewing options for the most appropriate Council governance model for this project and also the best delivery vehicle to manage and deliver the site development and ongoing campus. This future governance and delivery arrangement will steer, direct and manage the project alongside the existing South Yard Programme Board (SYPB) which is intended to continue until the land transfer has been completed in 2017. The SYPB currently consists of multiple stakeholders who have steered the investigation, feasibility, master-planning and transfer of South Yard to date.

In the short-term, management resources are provided from within existing City Deal capital costs and from existing Economic Development resources and an additional estate management resource of a Grade J Principal Surveyor has been provisionally identified with revenue costs for 2016/17.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

The scale, complexity and short-timeframes associated with understanding, negotiating and transferring parts of South Yard from the MoD to Plymouth City Council as part of City Deal inevitably leads to a number of significant risks, liabilities and unknowns. These issues have to be recognised and accepted by Plymouth City Council at this point in time in order to proceed with the delivery of the MIPC and create the future opportunity that will ultimately be a major asset for the City and sub-region.

The significant risks, liabilities and unknowns identified at this stage and how these are being managed are set out in the background report but the key risks identified are:

1. Failure to secure additional public sector capital grants
 2. Cost estimates/allowance prove significantly lower than actually required due to unknowns such as ground contamination
 3. Market demand and take up of the MIPC site is slower than anticipated or is insufficient
 4. Onerous constraints/conditions attached to land transfers
 5. Land transfers cannot be achieved to agreed timeframes
-

Equality and Diversity:

Has an Equality Impact Assessment been undertaken? Yes

Recommendations and Reasons for recommended action:

1. To delegate to Strategic Director for Place the negotiation, finalisation and signing of a legal agreement to transfer areas of South Yard (namely Areas 1 and 5) from the Secretary of State for Defence to the Council.
Reason: to allow negotiations on the land transfer to continue but be concluded before the end of March 2015 in line with target dates set within the City Deal Agreement.
2. To recommend to Full Council the acceptance of the funding offered as part of the City Deal Agreement (dated 31st January 2014) towards the creation of a South Yard MIPC ie: DLCC grant £8m, LEP (Growing Places funding) £5m loan and MoD up to £1m loan.
Reason: The funding identified as part of the City Deal Agreement has not yet been formally recognised within the Council's capital budget but is now certain based on the Terms of the City Deal agreement and subject to the signing of the South Yard land transfer agreement.
3. To authorise officers to prepare a detailed design and business case for a direct development proposal on the eastern area of South Yard Area 1 site.
Reason: To authorise resources to investigate and prepare a direct development proposal for South Yard which could secure a grant of £1.5m from the New Growth Fund (subject to approval) and if then taken forward will accelerate development and generate market interest in the South Yard MIPC site. This direct development proposal is estimated to deliver 149 and 176 new jobs.

Alternative options considered and rejected:

1. Do nothing and not progress the land transfer of areas of South Yard for an MIPC site.
This option was rejected as it would not therefore deliver the benefits predicted as part of the Plymouth and South West Pensinsula City Deal in terms of regenerating under-utilised land in South Yard to deliver permanent new jobs, significant marine employment space and leveraging in significant private sector investment.
2. Delay the timing of land transfer pending resolution of all outstanding information and unknowns.
The option was rejected as failure to progress and secure a land transfer agreement by the end of March 2015 would jeopardise the £8.0m of grant funding offered by the Department for Communities and Local Government (DCLG) and potentially other funding agreed as part of City Deal.

Published work / information:

Plymouth and South West Pensinsula City Deal Agreement signed 31st January 2015

http://www.plymouth.gov.uk/plymouth_city_deal_implementation_plans.pdf

Background papers:

Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7
South Yard Stage 1 feasibility Report dated August 2014 (draft)		Yes			Yes				
South Yard Stage 2 feasibility Report dated October 2014 (draft)		Yes			Yes				
South Yard final master-plan cost appraisals		Yes			Yes				
Heads of Terms for land transfer between Secretary of State for Defence and Plymouth City Council		Yes			Yes				
New Growth Deal 2 bid for direct development on Area 1 East		Yes			Yes				
Business Case financial model and capital expenditure profiles for South Yard MIPC site		Yes			Yes				
Equality Impact Assessment (attached)	Yes								

Sign off:

Fin	djn14 15.2 2	Leg	ALT 21826	Mon Off	RSN No. 2188 5/DV S	HR	N/A	Assets	JW 004 0 04/1 2/14	IT	N/A	Strat Proc	N/A
Originating SMT Member: David Draffan													
Has the Cabinet Member(s) agreed the content of the report? Yes													

Background Report

1. Introduction

- 1.1. This report summarises the results of feasibility and site investigations, master-planning and land transfer negotiations with MoD to transfer approximately 7.46 Hectares (18.4 acres) of HM Naval Base South Yard to Plymouth City Council for redevelopment as a Marine Industries Production Campus (MIPC) in line with the Plymouth and South West Peninsula City Deal Agreement.
- 1.2. This report seeks approval to proceed with the finalisation of legal documentation to transfer areas of South Yard from MoD to Plymouth City Council as part of the City Deal.
- 1.3. The City Deal Agreement and its objectives are summarised in Section 2 along with the South Yard feasibility and market analysis work undertaken to date which is outlined in Section 3. This background agreement, feasibility and investigation work has been used to inform a high-level vision for the South Yard MIPC site which is presented within Section 4 together with a development master-plan which has been submitted for outline planning approval and which estimates the future employment benefits.
- 1.4. A programme of enabling and site preparation works together with an envisaged future development sequence is set out in Section 4 along with indicative costs, risks, benefits, and opportunities. The site enabling and future development works programme has been aligned to the proposed land transfer agreement and land transfer phasing provisionally agreed between MOD and the Council which is set out within Section 5.
- 1.5. Along with proposed vision, master-planning and outline development programme for the transferred South Yard site, this report also presents an opportunity and proposals to immediately progress some direct development at the site to secure early benefits and generate initial interest in the new MIPC South Yard site.

2. Background

City Deal - South Yard MIPC and land transfer

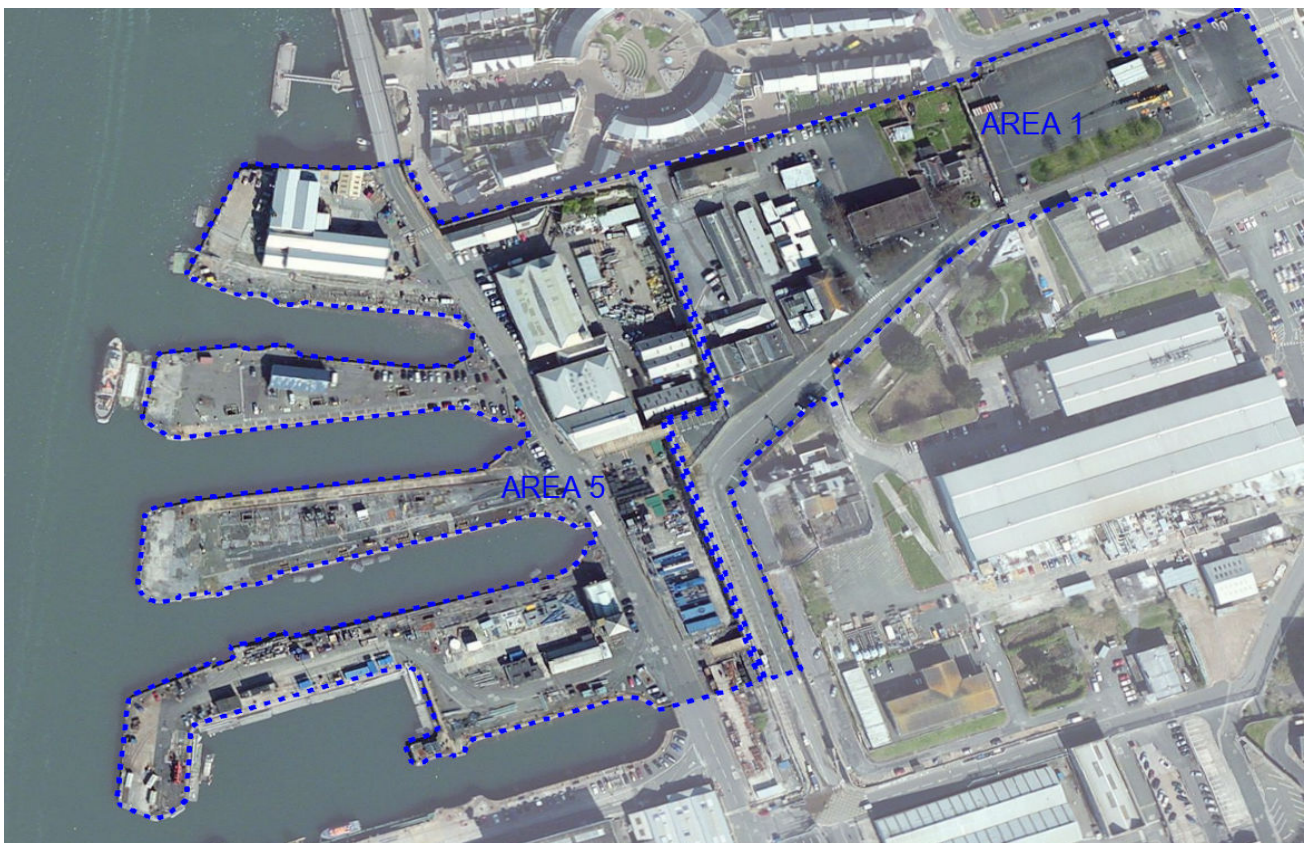
- 2.1. City Deals are a Government initiative announced in 2011 to promote economic growth by transferring certain powers from government to cities. Under these agreements cities are able to take responsibility for and make decisions on how public money should be used to promote business and economic growth within their local area.
- 2.2. The Plymouth and SW Peninsula City Deal is part of a second wave of City Deals and its flagship proposal is to transfer under-utilised land and buildings at the South Yard site in Devonport Naval Base from MOD control to Plymouth City Council for future development as a Marine Industries Production Campus (MIPC).
- 2.3. Unlocking this critical South Yard site will complement the region's key strength in the marine and advanced manufacturing sectors to provide employment space for marine sector companies and access to deep water, thereby enabling marine research and development and commercialisation activities to be undertaken. The South Yard site could also contribute to the South West region's Marine Energy Park concept to help support the wider marine renewable energy sector and hence contribute to the wider economic benefit of Plymouth and the SW region.
- 2.4. The City Deal South Yard proposal when agreed in January 2014 specifically targeted the creation of an estimated 1,184 new jobs, 32,400m² of new marine workspace and ultimately £59m of private sector investment from the initial part of South Yard to be transferred by a land transfer agreement which is targeted to be signed by March 2015.

- 2.5. The Council along with its City Deal partners signed the City Deal Agreement on the 31 January 2014. The Council recognised that the creation of a marine industries production campus in the City fully aligns to several of the Council's core objectives:
- a. Growing Plymouth – South Yard will create new jobs for the City, many of which will be highly skilled in specialist marine sectors. In addition the MIPC will facilitate economic investment and growth opportunities by attracting local, national and international marine related companies and organisations to the area. It is intended that these future job opportunities, as far as possible, would be marketed and promoted to local people with a commitment to a range of apprenticeships and skills development initiatives.
 - b. Confident Plymouth – South Yard is a spectacular historic maritime site which, following its transfer from MoD to Plymouth City Council, will ultimately become a key specialist marine employment and production campus for the City and will further enhance the City's reputation as a world class centre for marine research, development, design innovation and engineering.
- 2.6. As part of the City Deal Agreement, a Programme Board consisting of the Council, the Navy, MoD, English Heritage, Environment Agency, Defence Infrastructure Organisation and the Homes & Community Agency as key stakeholders was convened to progress the investigation, feasibility, master-planning and transfer of parts of South Yard to Plymouth City Council. The results of this work to date are set out in the following sections.

3. Feasibility Study

- 3.1. For the purposes of the Plymouth City Deal, South Yard, has been divided into 5 planning areas which are shown in figure A1 in Appendix A. Areas 2, 3 and 4 are to be retained by the MoD at least in the short to medium term with Areas 1 and 5 having been identified for release from MoD control as part of this City Deal transfer. Areas 1 and 5 are shown in figure 1 below:

Figure 1: Areas 1 and 5 of South Yard proposed to transferred to Plymouth City Council



- 3.2. The Council procured the services of a multi-disciplinary consultancy team in June 2014 led by URS Consultancy Ltd to assess the feasibility of releasing part of the South Yard site together with assessing its historic merits, determining market interest, developing a preferred master plan and gaining outline planning approval for the MIPC project. It should be highlighted that this feasibility work and its resultant cost estimates and appraisals are high-level and further work will be necessary to determine the detailed works to be undertaken and more accurate cost estimates.
 - 3.3. Between June and November 2014, a range of site investigations and surveys were undertaken to inform the feasibility of transferring the Areas 1 and 5 and various lay-outs and master-planning options were considered by the South Yard Programme Board. A short-list of preferred master-plan options was tabled for public consultation in October 2014 and a final preferred master-plan proposal was accepted in November 2014 and was submitted for outline planning consent.
 - 3.4. It should be recognised that the master-plan proposals submitted for outline planning consent are primarily high-level indicative plans in order to gain approval for the infrastructure changes necessary to separate the MIPC site from the Naval Base and establish the key principles of development and land-use. These plans also provide a basis for the MoD and the Council to understand the implications, opportunities, impacts and costs of any future development and detail how the site can be separated from MoD control whilst maintaining operational integrity and the required level of security.
 - 3.5. Alongside the feasibility study and master-planning work, the Council, URS consultancy team and RegenSW have been engaging with the marine sector and related companies to gauge market-interest and feedback. This information has been used to inform the Council's vision, master-plan and envisaged site development works programme for the site and is set out in Section 4.
 - 3.6. As part of a Marine Sector Demand study, Regen SW have analysed trends in the wider marine sector to draw out the city's comparative strength and areas of greatest growth potential. This intelligence will be used to inform a proactive, targeted marketing campaign to ensure there is a pipeline of marine businesses to take up space at the MIPC (see 4.13 - 4.17).
- 4. South Yard MIPC – Vision, Master-plan, Programme and Marketing to Investors**
- 4.1 City Deal seeks the creation of a south-west peninsula wide Marine Industries Production Campus to coordinate and improve the area's potential for research and development and commercialisation activities in the marine sector. Work is ongoing to understand the current strengths and weakness of existing marines sites across Cornwall, Devon and Somerset and to identify gaps and opportunities for the future. Other marine sites being considered include sites at Falmouth, Appledore, Ilfracombe, Yelland, Brixham, Totnes, Bridgewater Bay and in West Somerset.
 - 4.2 South Yard is seen as a critical site in providing new employment space for marine sector companies and access to deep water. These key factors together with its central location in the region and proximity to already established marine companies such as Babcock Marine Ltd and Princess Yachts Ltd in Plymouth provide a significant new opportunity for new marine development and employment which could in turn support the wider regional marine sites and economy.
 - 4.3 South Yard's historic context and background has been fully assessed and is intended to be recognised, enhanced and preserved, not least through the retention and potential conversion of many listed buildings and features which will ultimately form part of the new campus.

Marine Industries Production Campus (MIPC) Vision and Master-plan

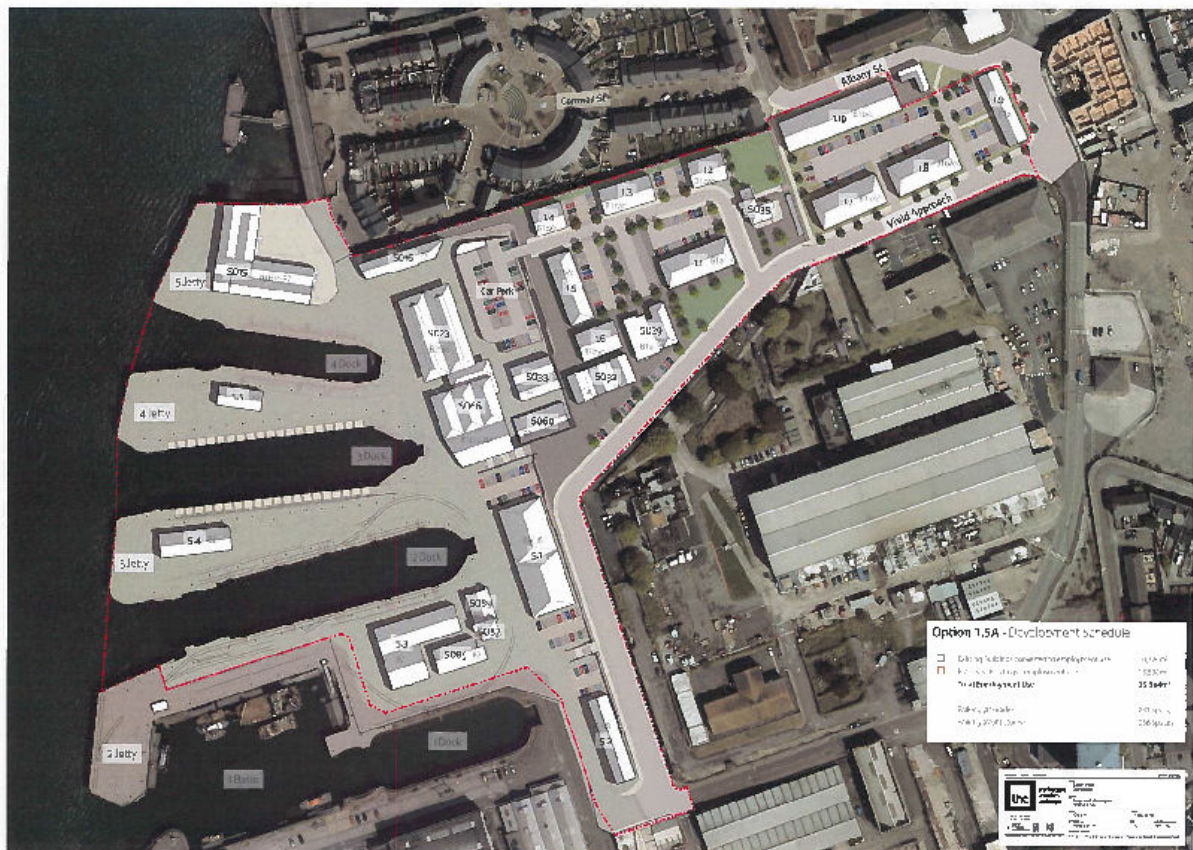
4.4 To inform the high-level development vision for the South Yard site being considered for transfer, a Marine Demand Study has been commissioned by the Council via RegenSW and although this work has yet to conclude it has provided very useful information and feedback as to what might work best on the site. This work has complemented the market demand and market interest feedback gained by the Council and the URS consultant team and has resulted in a vision that proposes graduated marine related activities across different areas of the site from largely office related activities to the east through to marine industry/manufacturing activities to the west.

South Yard MIPC Master-plan

4.5 The resultant master-plan shown in figure 2 below (repeated in larger scale as plan A2 in Appendix A) is based on the above vision which could accommodate the following activities:

- Marine and water technology activities called Blue Tech (eastern area of Area 1) – office, meeting and marketing space for potential professional marine consultancy, ICT and design services
- Campus (western area of Area 1) – hybrid office/workshop units with potential design suites, laboratories for technology and prototype production, and marine technology development
- Production (eastern hinterland of Area 5) – potentially marine workshops, product and component manufacturing and hi-tech engineering
- Marine Industries – engineering and manufacturing workshops, and waterside/dry dock activities including vessel fabrication, repair and assembly.

Figure 2 proposed master-plan layout for transferred areas of South Yard



- 4.6 This master-plan has been designed to retain future development flexibility on the site depending on what the Council requires and the private sector market proposes. Recognising the historic nature of the South Yard site, the proposal retains 12 existing buildings most of which are either listed or have historic value. These existing buildings together with other historic assets such as the listed docks and walls will be retained, upgraded and adapted for future reuse.
- 4.7 In addition the master-plan details the demolition of a number of existing buildings on the site which are considered unsuitable for future use in the MIPC and proposes the construction of 15 new buildings many of which are hybrid buildings with workshops at ground level and upper floors capable of being tailored to other uses such as office, research, design etc.
- 4.8 The plan will form the basis of the Outline Planning Application which will secure a change of use and will act as a consent against which future specific detailed developments on the site will be considered. This proposal retains 12 existing buildings on the site which will provide over 10,000m² of existing building floor space for employment use and proposes 15 new buildings generating over 15,000m² of floor space.
- 4.9 Based on recognised industry standards for proposed usage types, the proposed master-plan development is projected to generate employment for over 1,200 employees, many of whom would be specialist and highly skilled jobs (see plan A3 at Appendix A). To accommodate the employment numbers with the development layout shown around 500 new parking spaces would be required, some of which could be accommodated in a public or potentially private sector funded multi-storey car-park designed to serve Area 5 at its base level and Area 1 at its top level.

South Yard MIPC high-level works and development programme

- 4.10 Extensive works will be required to establish a new Marine Industries Production Campus in South Yard and work will need to be phased and progressed over a number of years. Some of the work will be undertaken by the MoD which are linked to separating and safeguarding their operations, some by the Council as part of the preparing the site and some by private sector developers tailoring new developments to suit their specific needs.
- 4.11 The City Deal funding is not intended to deliver the master-plan in full and hence with the funding currently available the Council will concentrate on servicing, preparing and upgrading the site ready for development. Notwithstanding this, the Council does have an ambition to progress some direct development on the site as soon as possible (see section 7) although the rate, extent and exact areas of development will vary depending on the availability of funding, market interest and upon the specific requirements and needs of businesses seeking to occupy the MIPC site.
- 4.12 The works intended for the site have been simplistically divided into the following categories:
- a) **Separation Works – Access and Security Works** – including works to separate the South Yard MIPC site from the Naval Base in terms of security and access routes to MoD retained areas
 - b) **Site Preparation Works** – including works to: remove surplus MoD services and divert and revise MoD services; provide new services to the MIPC site; demolish unwanted buildings; refurbish/repair retained buildings and structures to an acceptable standard; form primary access routes and undertake localised site remediation as required.
 - c) **New Build and Fit Out of New Development** – including works to: construct new employment buildings and spaces; fitting out existing retained buildings; formation of secondary and tertiary access routes; provision of car-parking and provision of hard and soft landscaping.

- 4.13 Subject to achieving the agreed dates for the phased hand-over of the South Yard site (see Section 5 HoTs) and assuming a degree of latitude for the Council to undertake works under licence in advance of the formal land transfer, a high-level site development programme with a broad indication of capital works over the next 5 years is set out in Table 1 below.

Table 1 - high-level site capital works development programme

Year (land transfer from MoD)	Access and Security Works	Site Preparation Works	New Build and Fit Out
2014/15 Currently funded		Area 1 East: relocation, diversion and capping of MoD services	
2015/16 (Area 1 East – April 2015) Currently funded	Area 1 East: amended fence lines Area 1 West: amended fence lines	Area 1 East: relocation, diversion and capping of remaining MoD services Area 1 West: relocation, diversion and capping of MoD services Area 1: new primary services, primary road modifications, remediation and demolitions Area 5: relocation, diversion and capping of MoD services	Area 1 East: potential direct development of offices and units
2016/17 (Area 1 West – April 2016) Currently funded	Area 5: new security fence and road to 2 Jetty, revised and new security gates, road markings	Area 1 West: relocation, diversion and capping of remaining MoD services Area 1: new primary services, primary road modifications, remediation, urgent building and infrastructure repairs, remaining demolitions, building refurbish/repair works Area 5: relocation, diversion and capping of MoD services Area 5: new primary services, primary road modifications, remediation and demolitions	Area 1 East: potential direct development of offices and units Area 1: New builds and fit-outs subject to private sector interest and/or additional grant funding
2017/18 (Area 5 – April 2017) Currently funded		Area 1: infrastructure repairs, building refurbish/repair works Area 5: relocation, diversion and capping of remaining MoD services Area 5: new primary services, primary road modifications, remediation, urgent building and infrastructure repairs, remaining demolitions, urgent repairs to walls, docks and jetties	Area 1: landscaping, secondary access routes and servicing as development requires Area 1 West: direct development if additional grant funding sourced Other new builds and fit-outs subject to private sector interest and/or additional grant funding
2018/19 Currently unfunded		Area 1: infrastructure repairs, building refurbish/repair works Area 5: remediation, building refurbish/repair works, repairs to walls, docks and jetties	Area 1 and 5: hard and soft landscaping, car-parking, secondary access routes and servicing as development requires Area 1 West: direct development if additional grant funding sourced Other new builds and fit-outs subject to private sector interest and/or additional grant funding

Year (land transfer from MoD)	Access and Security Works	Site Preparation Works	New Build and Fit Out
2019/20 Currently unfunded		Area 5: remediation, building refurbish/repair works, repairs to walls, docks and jetties	Area 1 and 5: landscaping, secondary access routes, multi-storey car-park as development requires Further new builds and fit-outs subject to private sector interest and/or additional grant funding

Marketing the MIPC to investors

- 4.14 The new MIPC at South Yard presents a significant opportunity to address the city's low productivity, by stimulating high-value job creation in one of the city's strongest sectors. Analysis by Regen SW has demonstrated areas within the broader marine sector where the city has clear capabilities and growth potential¹ - this intelligence will inform a targeted approach to marketing the MIPC for new business growth and investment.
- 4.15 Regen SW analysis suggests that successful industry clusters are based on a combination of indigenous strengths and new inward investment. Enquiry management work by Alder King has already identified a strong pipeline of existing city businesses looking to potentially expand into the MIPC; this demand will be consolidated through more proactive efforts to secure new investment from further afield.
- 4.16 Case study analysis has shown that businesses are drawn to 'ready-made assets', like minded companies and intellectual capital. Therefore the effective packaging and promotion of Plymouth's key assets will form a key part of the MIPC investment strategy. Marketing collateral including a high-level 'sales' brochure and website is in development and will be promoted through local (eg *investinplymouth*), regional (eg LEP) and national (eg UKTI – Regeneration Investment Organisation) channels. Furthermore, the MIPC/South Yard offer will be showcased at a series of industry-specific trade shows (All Energy Conference in Glasgow in May 2015, for example) to maximise interest.
- 4.17 The MIPC investment strategy will be necessarily collaborative, drawing on the strengths and knowledge of local partners to effectively account manage a MIPC business pipeline. A virtual inward investment group (including key players like Plymouth University, Plymouth Marine Laboratories, Marine Biological Association, PCC and the Heart of the SW LEP) has been created and will prioritise the South Yard opportunity. In addition, City Deal funding will be used to procure specialist sector support to help hone the sector proposition, drive forward new investment opportunities, and develop the necessary connections with business to stimulate and nurture demand. City Deal 'soft landing' financial support is also available to incentivise the development.
- 4.18 Given the phasing of development described above, the initial focus will be in securing interest in Area 1 East, the so-called 'Blue Tech'² offer, which will provide high quality office space and test facilities suitable for knowledge based business growth.

¹ Sub-sectors include autonomous vehicles, marine ICT, green shipping, marine science applications, decommissioning, composites and environmental instrumentation

² Blue tech – includes the following naval architects, marine consultants/consultant engineers, marine commercial/professional services and ICT/Marine technology

5. Land Transfer Agreement

- 5.1 Heads of Terms (HoTs) for an agreement to transfer South Yard land Areas 1 and 5 have been concluded between the Secretary of State for Defence and Plymouth City Council. These HoTs are commercially confidential but include the following high-level terms and conditions:
- a) A set of legally binding agreements will be completed by 31 March 2015 which will transfer the South Yard land areas in 3 phases conditional on providing continuity of operational service provision and maintaining security for the MOD retained estate;
 - b) The timing of land transfers are provisionally targeting Area 1 East in March 2015, Area 1 West by April 2016 and Area 5 by April 2017;
 - c) The transfers will be for freehold of Area 1 East and a long leasehold (299 years) of the remaining site areas;
 - d) Designated employment uses will be permitted on all 3 transferred sites;
 - e) Leases, licences and rights of parties will be established whilst separation works are ongoing;
 - f) Terms for reimbursement of MoD separation costs and any existing land value;
 - g) Terms for the sharing of any development profits above a target level that covers the Council's costs of developing the project;
 - h) New MoD security requirements and apportionment of associated capital and revenue costs;
 - i) Conditions, constraints and protocols attached to developing the site in the future recognising the MoD's Warships in Harbour requirement to safeguard site occupants from berthed warships carrying armaments;
 - j) A commitment for the Naval Heritage Collection to remain in the South Yard site until an alternative arrangement is agreed between MoD and Plymouth City Council;
 - k) The MoD has provided land quality assessments based on previous surveys but the MoD will not retain any liability for land contamination on the transferred site hence the Council will need to manage any site contamination that is found.
- 5.2 Although these HoTs are not legally binding at this stage it is intended that parties will develop these HoTs into detailed legal documentation for completion before the end of March 2015 in line with the target date set out within the City Deal Agreement.

6. Costs, Funding, Risks and Liabilities

Summary of MPIC cost appraisals and analysis

- 6.1 Based on cost appraisal analysis using the information set out over the following pages, a further £28m of public sector capital grant money is needed, in addition to that already identified, to fund the necessary site separation, site preparation, direct development and public works. Without such additional public grant funding, the private sector will have to fund more aspects of the development but this will reduce the income available to the Council who will retain a revenue cost implication to run the site. Furthermore the MIPC site may not be in a position to be completed by private sector development which in itself may require some form of grant funding or incentive.

- 6.2 In terms of revenue funding, there are many areas of ongoing revenue cost that need to be recognised from the point of land transfer such as site management, MOD and site security, insurance, empty building business rates, loan repayments etc. These revenue costs will initially have to be fully met by Plymouth City Council although this revenue demand will be reduced through demolition of unwanted buildings and the balance offset by rents, land premiums, service charges and business rates received from organisations moving into the MIPC site.
- 6.3 To obtain the required level of revenue income to offset ongoing site running costs, it has been assumed that the majority of new-build development in Area I will be undertaken by the Council, some of which (Area I West) will require additional and as yet unidentified grant funding. It is estimated that without additional capital grant funding the site will not reach payback and revenue expenditure will always exceed revenue income.
- 6.4 Assuming £28m of additional capital grants is forthcoming then the payback period for investment becomes between 25 and 30 years which is realistic for a long-term development of this scale. A sensitivity analysis has been undertaken (see section 6.16 and Appendix D) which shows how changes in assumptions affect this pay-back and the revenue position for the Council. Once full developed, it is estimated that the gross value added (GVA) to the economy from the site will be £136.7m per annum.
- 6.5 The following sub-sections set out the Council's commercial strategy for the next five years along with estimated revenue and capital spend costs associated with taking and developing the MIPC site and the available funding streams that will fund this work.

Outline Commercial Strategy for the MIPC site development

- 6.6 The high-level commercial strategy being proposed by the Council to take the site forward over the first 5 years is set out in Table 2 below:

Table 2: Commercial strategy to be adopted over first 5 years

Development Years	High-level description of Council activities	Funded by
Years 0 to 2	Separate South Yard MIPC site from the Naval Base, provision of new services, demolition of unwanted buildings to reduce rates liabilities	City Deal grants, loans and Council investment but minimal or no rental income
Years 1 to 4	Refurbish/repair retained buildings and structures to an acceptable standard for letting, undertake around 3,000m ² Direct Development on Area I East (see section 7), market site to increase letting income to support borrowing and site revenue costs.	City Deal grants, land and property disposals, loans and Council investment with increased rental income to help offset site running costs and loan repayments.
Years 2 to 5	Market site to allow private sector to construct new employment buildings and spaces to, increase letting income to support borrowing and site revenue costs. Seek additional grant funding to progress around 4,000m ² of Direct Development on Area I West and site regeneration	Secure increased rental income to further offset site running costs and loan repayments. Land and property disposals. Additional grant funding needed to continue to separate and develop site

Estimated Capital costs

- 6.7 Estimates of the capital investment needed to deliver the envisaged South Yard MIPC master plan (including private sector investment) has been prepared against each of three broad categories or stages of work. The first two categories of works ie Site Separation and Preparation will need public sector funding to make the site viable with the latter category (New Build and Fitting Out) primarily funded by the private sector. High-level capital cost estimates needed to deliver the master-plan are shown in Table 3 below at 2014 prices noting that these costs will be subject to inflation and exclude other unavoidable costs such as design, fees and project management.

Table 3: Capital Cost Estimate to Deliver MIPC Master-plan at 2014 prices

Category of Cost	Activity or Location	Order of Cost (to nearest £0.5m)	High-level description of cost
Separation Costs	(a) Security and Access related (b) Servicing Related	(a) £0.5m (b) £2m	Includes works to separate the South Yard MIPC site from the Naval Base in terms of security and access routes and removing surplus MoD services and diverting/revising MoD services to MoD retained areas
Site Preparation Costs	(a) Area 1 (b) Area 5	(a) £4m (b) £13m	Includes works: to provide new services to the MIPC site; demolish unwanted buildings; refurbish/repair retained buildings and structures to an acceptable standard; create serviced sites for disposal and development; form primary access routes; and undertake localised site remediation.
New Build & Fitting Out of New Development	(a) Area 1 East (b) Area 1 West (c) Area 5	(a) £7.5m (b) £9.5m (c) £17.5m	Include works to: construct new employment buildings and spaces; fitting out existing retained buildings; formation of secondary and tertiary access routes; provision of car-parking; and provision of hard and soft landscaping.
Total Estimated Cost (at 2014 prices)		£54m	Current project cost analysis assumes that the Council, via public sector funding, will pay approx 2/3's of this total cost but that this will amount to £48m once inflation and other excluded costs are added. Analysis assumes the other 1/3 of this cost (primarily development in Area 5) will be private sector funded although this ratio could change.
The above costs include a 10% contingency but excludes the following aspects at this stage: design, project management and professional fees; adoption Costs; VAT; works phasing; ground conditions/contamination; special planning conditions; Section 106 contributions; Section 278 works and other works beyond site boundary; asbestos removal associated with demolitions; surveys and remediation measures associated with radiation contamination; pumping foul drainage off site; fibre optic service diversions; specific impact of Heritage Reports; general CCTV Installations; provision of pontoons caisson gates to docks and associated pumping equipment; piling to new buildings; fitting out building SO35 if used as a café; MOD costs associated with relocation, decanting; IT Hub relocation.			

6.8 To commence the development of the South Yard MIPC site, various funding arrangements have been agreed as part of the City Deal agreement including investment from the Council's Investment Fund. These funds will contribute to the transfer, separation and preparation of the MIPC site although it must be recognised that additional grant funding will need to be sought and required to fully complete the site preparation works alongside any private sector investment. The funding sources currently identified and agreed are summarised in table 4 below together with outline terms and conditions where known. This table also includes an additional funding bid from New Growth Deal 2 which is intended to be used for the delivery of the direct development proposal set out at Section 7:

Table 4 – Available, agreed and bid funding sources for South yard MIPC development

Funding Source	Amount	Status	Terms and Conditions
Plymouth City Council	£5m	Capital - approved	
Department for Government and Local Communities (DCLG)	£4m (2015/16) £4m (2016/17)	Agreed as part of City Deal Agreement. To be a Section 31 capital grant	Subject to progress of City Deal South Yard land transfer agreement. Released in 2 tranches but not time limited
LEP (Growing Places funding)	£5m	Agreed as part of City Deal Agreement	Business case required for release as £3m capital loan and £2m grant – terms of repayment to be negotiated
Ministry of Defence (MoD)	Up to £1m	Agreed as part of City Deal Agreement.	Capital loan towards MoD separation and enclaving. Areas of spend agreed and repayable within 10 years
LEP (New Growth Deal 2)	Up to £1.5m	Capital grant bid submitted (Nov 2014) for direct development at Area 1 East	Currently a funding bid hence money not assured and terms as yet unknown
Total money available	£19m + £1.5m bid		

6.9 Recognising the City Deal funding currently available from table 4 above, the areas and timing of expenditure on developing the South Yard Site have been prioritised over the next five years based on the information currently available. This is summarised in Table 5 below together with what can be funded by the City Deal money available. Whilst costs for separation of the site can be readily projected over the medium term, it is recognised that the actual building development and fit out will also be market led and so it is only possible at this stage to profile the initial direct development at Area 1 East (see section 7) with any accuracy albeit further direct development is needed and will be targeted for Area 1 West. The spend profile in Table 5 is based on the master-plan order of cost estimates which have a range of unknowns and hence this spend profile will be subject to change over time. This spend profile will also change as additional grant money becomes available and/or if specific private sector development and leases are confirmed. Table 5 summary is shown below:

Table 5 – Summary table of capital expenditure on the South Yard MIPC site for next 5 years and thereafter with assumed construction inflation at 4% per annum.

Works	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	Future years £,000	Total £,000
City Deal management, feasibility and fees	£786	£179	£184	£188	£193	£0	£1,531
Site Access and Security	£0	£123	£445	£0	£0	£0	£568
Site Preparation	£125	£1,459	£4,511	£5,469	£2,388	£9,495	£23,447
Direct Development proposal on Area I East	£0	£1,553	£4,012	£0	£0	£0	£5,564
Other publicly funded works eg landscaping, carpark	£0	£0	£359	£405	£907	£6,793	£8,464
Total estimated capital expenditure of works above	£911	£3,314	£9,510	£6,063	£3,488	£16,288	£39,574
Funded by available City Deal monies (assuming New Growth Deal grant received)	Yes – all above	Yes – all above	Yes – all above	Yes – all above	Only £700k of above	No	
Additional capital grant required to deliver more Area I West direct development				£4,004	£4,480		£8,484

- 6.10 As can be seen from the figures in Table 5 above, the circa £20m funding currently available to the City Deal project can only fund the profiled expenditure until 2017/18 and is therefore considerably short of overall amount required to deliver the totality of the site separation, preparation, Area I East direct development and public works required on the site.
- 6.11 The last line of table 5 shows that the Council will also seek to deliver further direct development in Area I West by 2019/20 which is at present unfunded and would require further capital grant funding of around £8.5m. This additional direct development is needed to provide sufficient revenue income to offset revenue costs associated with running the site without which the Council will suffer an ongoing net revenue pressure or will have to reduce its liabilities and expenditure by such means as slowing down the development of the MIPC site and/or moth-balling development areas for a period of time. Therefore, in order to deliver the South Yard MIPC master-plan publicly funded separation and preparation works and the direct developments as proposed, a further £28m of additional grant funding will be required.

Estimated Revenue costs

- 6.12 The South Yard site once transferred from the MOD will also have revenue implications in terms of both income and expenditure. Upon transfer, it is estimated that there will initially be revenue cost liabilities (table 6) for the Council from various directions. These revenue costs will be minimised through various means such as demolitions and/or netted off by income set (table 7). Based on a range of assumptions, it is estimated that there will be a revenue impact on the Council which will need to be accounted for between 2015/16 and 2018/19 following which income will then exceed expenditure. Table 6 below sets out estimated estate management revenue costs for the next 5 year period. These costs, in particular those for security, are currently being reviewed and it is hoped that these can be reduced.

Table 6 – Summary table of estimated revenue costs for South Yard MIPC site over the next 5 years

Cost areas	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Management cost ^{Note 1}	0	57	59	62	65
Site running costs ^{Note 2}	25	36	190	199	208
Empty Business rates ^{Note 3}	0	17	169	136	167
Building Insurance ^{Note 4}	1	10	11	11	11
MOD Security costs ^{Note 5}	0	0	506	519	532
PCC Security ^{Note 6}	0	32	108	110	113
Total Revenue Expenditure (26	152	1,043	1,037	1,096

Notes

1. Management cost allows – one Grade J Principal Surveyor for general estate management of the site from 2016 including dealing with the lettings of the direct development buildings and refurbished existing buildings.
2. The site running costs allow for the planned and un-planned maintenance of the retained buildings and common areas including access roads and sea walls, grounds maintenance, utility costs and pest control etc.
3. Empty business rates are an estimate of the Council NNDR liability on retained vacant buildings and new buildings being let which will reduce in line with projected lettings from 2017/18. It should be noted that it has been assumed that non-retained buildings will be demolished immediately prior to transfer to avoid empty rates liability; in the event that demolition is delayed additional provision will need to be made for additional empty rates liability.
4. Building insurance costs have been estimated based on assumed vacant buildings otherwise costs will be paid by tenants.
5. The MOD security costs are to provide security to Jubilee Gate and a new gate to Morice Yard as per the transfer heads of terms as part of the MOD operational requirement. The existing gate will need to be increased to twenty four hour cover. The new gate will be required to provide twenty four hour cover. These costs are under review.
6. The PCC security costs are to provide civilian security cover to the docks area within Area 5. The extent and form of this cover is yet to be decided.

- 6.13 As development progresses on the site, income will increase to help offset ongoing revenue expenditure although the exact timing of this will depend on how quickly development takes place on the site. Table 7 below shows potential rental income for South Yard over the first 5 year period. The figures for Area 1 East relate to the direct development scheme to create new offices and hybrid units although the income from this scheme will be used to fund the cost of the Growing Places loan promised as part of the City Deal funding agreement (as shown in Table 4).

Table 7: Summary Table of Estimated Income for South Yard MIPC over the next 5 years

Income Stream	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Rental Income from Leasing ^{Note 1}	0	5	275	438	848
Business rates ^{Note 2}	0	18	154	167	303
Service Charges ^{Note 3}	0	0	19	42	95
Dock/waterfront land rental ^{Note 4}	0	0	0	55	57
Total Revenue Income	0	23	448	703	1,303
Notes					
1. Rental incomes in this period assume existing leased buildings continue, some existing retained buildings are leased and the Council has direct developed all but 2 new buildings in Area 1 which will require additional £9m of grant funding and that direct development has 60% occupancy in its year 1, 80% on its year 2 and 90% thereafter.					
2. This business rate income is based on the development schedule assumed in 1 above with the 50% element retained by the Council and it is assumed this same amount will be returned by the Council to fund the South Yard MIPC project					
3. Service charges are based on 65p per sqft applied to leased buildings					
4. It is assumed that the dockland and jetty area can be used to generate around £1k per week					

6.14 Based on tables 6 and 7 and the range of assumptions this is based on the net revenue position for the Council will be as set out in table 8 for the next five years. This table shows that initially there will be a revenue requirement to support the project but as development progresses across the site, income increases such that a positive net revenue position is attained. This positive net revenue will be used to fund loan interest costs and return the Council's £5m capital investment such that a payback period of around 25 to 30 years is expected.

Table 8: Summary Table of Net Revenue Position for South Yard MIPC over the next 5 years

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Total Revenue Expenditure	26	152	1,043	1,037	1,096
Total Revenue Income	0	(23)	(448)	(703)	(1,303)
Net Revenue Position (assuming no capitalisation)	26	129	595	334	(207)

6.15 It should be highlighted that the positive net revenue position shown in table 8 from 2019/20 onwards is based on a number of significant assumptions including that the Council receives more grant funding to develop the South Yard site and progresses more direct development across Area 1 West. If these assumptions prove incorrect then there will be opportunities for the Council to reduce its liabilities and expenditure by such means as slowing down the development of the MIPC site and/or moth-balling development areas for a period of time such as Area 5 which is the area with the highest revenue demand generated by the MoD security costs and a highest level of currently unfunded site preparation and development works.

- 6.16 A sensitivity analysis has been undertaken which considers variations to some of the key assumptions and how this affects the revenue and payback period. A summary of this sensitivity analysis of key risks is included in Table 9 and the results with risks more fully explained included at Appendix B.

Table 9 – Sensitivity analysis on key risks and their financial implications

Risk No	Description	Values (excluding inflation)
1	Project funding, further grants and capital funding not available	1. Capital costs never recovered – no payback 2. Revenue is wiped out and an annual cost of £225k per annum is required to operate the site
2	Cost of Construction, annual inflation of 6%	1. Capital costs increase by £2m. 2. Payback increases by 5 years
3	Construction delayed by 2 years eg through slow receipt of additional grants and loans	1. Capital costs increase by £3m. 2. Payback increases by 5 years
4	Private development of Area 5 does not happen	1. Revenue reduces £150k per annum. 2. Payback increases by 4 years
5a	Rental income – occupancy reduced to 50%	1. Capital costs never recovered – no payback 2. Revenue is wiped out and an annual cost of £100k per annum is required to operate the site
5b	Rental income – rental values 25% lower than expected	1. Revenue reduces by £250k per annum 2. Payback increases by 26 years.
6	Operating costs underestimated by 25%	1. Revenue reduces by £265k per annum 2. Payback increases by 21 years

Risks, liabilities, unknowns and sensitivity analysis

- 6.17 The scale, complexity and short-timeframes associated with understanding, negotiating and transferring parts of South Yard from the MoD to Plymouth City Council as part of City Deal inevitably leads to number of significant risks, liabilities and unknowns. These issues have to be recognised and accepted by Plymouth City Council at this point in time in order to proceed with the delivery of the MIPC and create the future opportunity. Table 10 below lists the significant risks, liabilities and unknowns identified at this stage and how these are being managed.

Table 10 – Summary table of risks, liabilities and unknowns

Description	Potential impact	Proposed Management
Failure to secure additional public sector capital grants	The Council will not be able to complete the required site separation and preparation works Areas of the site may have to be mothballed The full potential of the MPIC site will not be delivered	Seek additional grant funding to continue with MIPC master plan works which need to be public sector funded Prioritise works to deliver maximum impact and development potential Develop a contingency plan in the event that grants are not available as required

Description	Potential impact	Proposed Management
Cost estimates/allowance prove significantly lower than actually required due to unknowns e.g. site services, works requirements, levels of site contamination and changes to Warships in Harbour regulations	Costs and liabilities increase for Council MIPC delivery slowed Less MIPC works delivered by Council Development sites not progress due to contamination liabilities	Build contingency into estimates Undertake further contamination survey to ascertain status Liaise with MoD re Warship in Harbour regulations Prioritise MIPC works to maximise delivery potential Continually seek additional funding
Market demand and take up of the MIPC site is slower than anticipated or is insufficient	Insufficient revenue income to the Council to fund the running and development of MIPC site Site under-utilised	Develop and deliver an attractive brand and a robust marketing plan for the MIPC site Council to undertake direct development on the site to promote and develop interest Council to develop contingency fund and plan for site Undertake further market and funding due diligence prior to land transfer to ensure that demand position is clearly understood
Onerous constraints/conditions attached to land transfers	Constraints prove unacceptable to the market hence site is not developable or fundable	Understand and minimise constraints, discuss with market sector and funders prior to transfer
Land transfers cannot be achieved to agreed timeframes	Impacts on agreed funding Development is slowed South Yard site transfer jeopardised	Secure certainty of legal land transfer with timing flexibility Ensure funding conditions known and negotiate flexibility

Future governance and site management

- 6.18 At present a South Yard Programme Board (SYPB) has steered the investigation, feasibility, master-planning and transfer of parts of South Yard to Plymouth City Council. This Board consists of the Council, the Navy, MoD, English Heritage, Environment Agency, Defence Infrastructure Organisation and the HCA as key stakeholders and is intended to continue until the land transfer has been completed in 2017.
- 6.19 The first part of the South Yard site will transfer to the Council in April 2015 and hence the Council is now reviewing options for the most appropriate Council governance model for this project and also site management, delivery and staffing arrangement to directly shape, manage and develop the site into the future. A range of potential governance and management delivery vehicles will be investigated during 2015 with a view to being established as soon as practical.

7. Initial Direct Development proposal for Area I East

- 7.1 As set out in section 4 above the current City Deal funding is not intended to deliver substantial development at the site. However it is recognised that in order to generate sufficient income to offset the revenue running costs of the site, it will be necessary for the Council to develop some buildings on the site. In addition to make the campus attractive to marine industry businesses it will be necessary to develop facilities at the outset that promote the campus as a suitable specialist business district.

- 7.2 There are buildings and infrastructure in South Yard that can be readily adapted to the marine sectors, however there are no direct high end facilities that offer clean technologies and client facing facilities that the private sector need to promote and develop their businesses.
- 7.3 The Council has appointed RegenSW to undertake a detailed economic demand study for the global, national and local markets in the marine industries. The findings of this study suggest that the entrance of the campus needs to consist of high end office, meeting and market spaces, along with a number of hybrid office /workshop, designed to accommodate design suites, labs and training rooms for technology development and product prototypes production. These being of a size that allows growing businesses to relocate to the campus because of the synergy the units have to other like businesses, clients and supply chains.
- 7.4 It is proposed therefore to initiate the direct development of Area 1 (east) of South Yard which will be the first development to create the Marine Industries Production Campus and will set the tone for the image and status of the development. The proposals will construct two buildings and car parking and public realm at this stage which would consist of 14,516 Sq ft of light industrial (hybrid) units with flexibility for potential laboratory and testing facilities, and 18,387 sq ft of class A office development. An additional building maybe also be constructed if additional grant funding is available.
- 7.5 The scale of the first development needs to be proportionate to the funding available at the current time and of a size that announces the campus opening without over developing as demand is stimulated. In this way the buildings will form the first catalyst infrastructure with a developed public realm at the entrance to the campus but leave room for future development at the front of the site.
- 7.6 The proposals to initially build two of the possible four buildings on the Area 1 (east) site would create between 149 and 176 direct jobs and in addition to this it is estimated that the build process will support 70 construction jobs and create five construction apprentices.
- 7.7 It is estimated that the proposal will bring in an average of £64k per annum in NNDR retention at 50% which will be used to offset site running costs.
- 7.8 The proposal is to use £1m of grant funding from the Council's Investment funding (a proportion of the £5m already allocated to South Yard) and £1.5m of a New Growth Deal 2 grant, which is being bid for, which together will meet the viability gap of a £5.6m development. The remaining funding can therefore be a £3.1m loan from Growing Places Fund which will be assumed to be repaid through an annual charge over a period of 10 years. This has been modelled as affordable from the rental income of the development over a period of 22 years, meaning that there will be a requirement to refinance the loan from year 10 onwards. The details of the business case will be submitted to the Council's Investment Board and the Leader of the council in a separate report.
- 7.9 The proposed direct development programme will be a two stage design and build procurement in the early part of 2015 with a target to secure full planning by the end July 2015, and be on site for November 2015, with the objective of being operational straight after Christmas 2016. This can be achieved, if agreed, through a batched procurement method with a similar direct development proposal as Plymouth Science Park (business case for the investment in this development was approved by the Council on the 6th November 2014). This is a challenging but realistic programme because the Council can take advantage of procurement undertaken in the early development work for technical advisors and the batching of procurements that would make the development a £12.5m programme which would be considerably more attractive to the construction market at this important stage as the market picks up.

- 7.10 In addition to funding set out above the Council will investigate an application to EDRF for a further £2m grant gap funding or seek more Growing Places Funding from the LEP as a grant, which if successful will allow a further building to be constructed by the same contractor as it will be included in the construction procurement. In this circumstance the grant gap funding may be sufficient to back out the Council's contribution of £1m. There is therefore the opportunity that the Council's £1m investment can be used to underwrite the proposals if EDRF or LEP funding is not available.
- 7.11 Further direct development is also desired to be undertaken by the Council in Area I West although this would not be until 2017/18 and 2018/19. This additional direct development would need to be funded by additional grant money and will be the subject of a further proposal in the future.
- 8. Equality Impact Assessment**
- 8.1 An Equality Impact Assessment has been undertaken and is included at Appendix C.

Appendices – Separately attached

Appendix A – Site plans

Appendix B – Sensitivity Analysis

Appendix C – Equality Impact Assessment

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City Deal South Yard Land Transfer Cabinet Report

Appendices

Appendix A – Site plans

Appendix B – Sensitivity Analysis

Appendix C – Equality Impact Assessment

Appendix A – Site Plans

Figure A1 – A plan of South Yard showing areas considered City Deal transfer

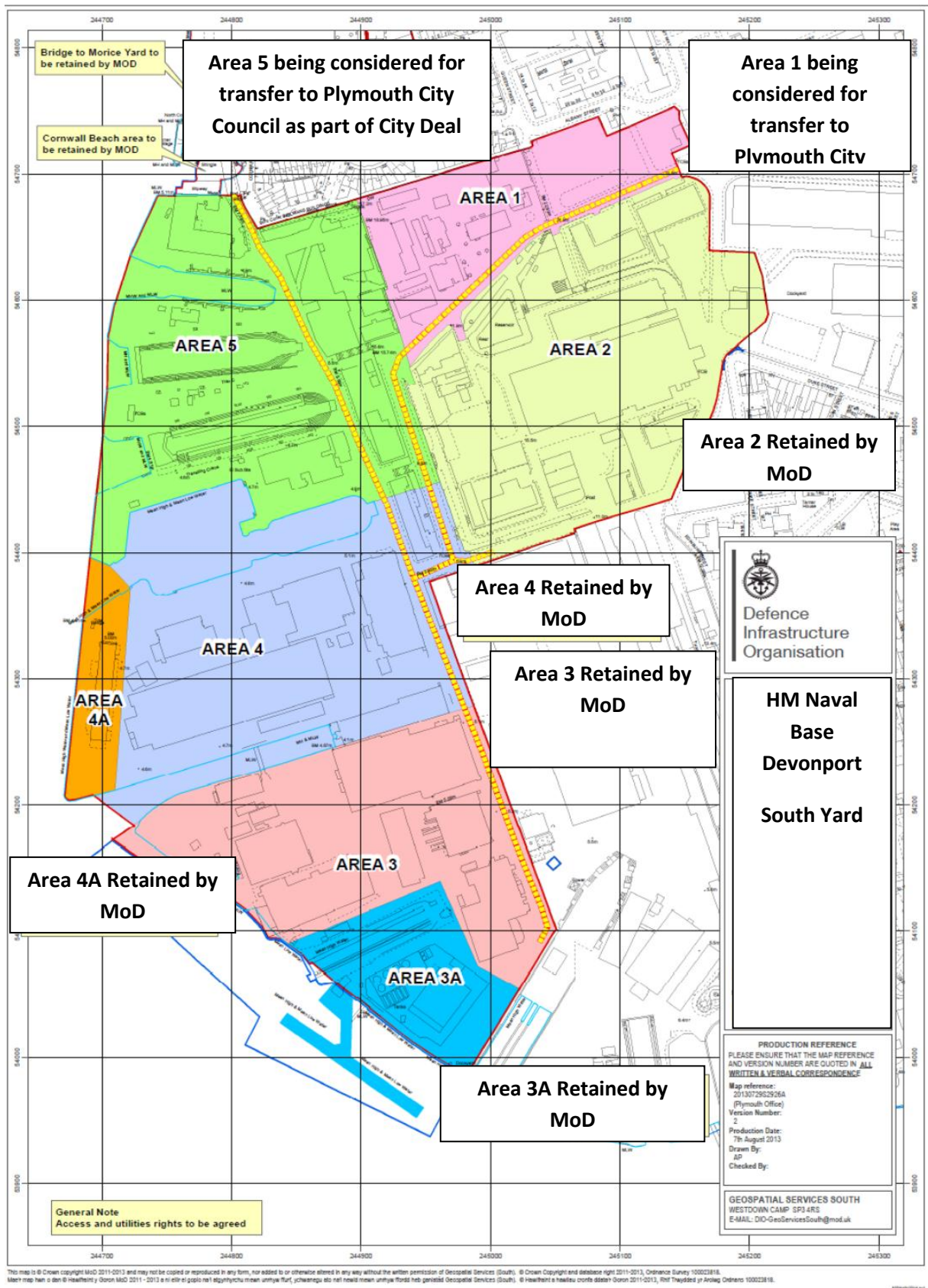


Figure A2 - proposed master-plan layout for transferred areas of South Yard



Figure A3 – potential employment estimated from proposed master-plan layout for transferred areas of South Yard



Appendix B – Sensitivity Analysis of Risks

City Deal – South Yard

Sensitivity of Assumptions

There are a great deal of assumptions included in the business case to come up with a viable proposition, that will not leave the PCC with a legacy of annual revenue costs and a capital payback of between 20-25 years.

The key risks and their financial implications are:

Risk No	Description	Values (excluding inflation)
1	Project Funding, further grants and capital funding not available	1. Capital costs never recovered 2. Revenue is wiped out and an annual cost of £225k per annum is required to operate the site – no payback
2	Cost of Construction, annual inflation of 6%	1. Capital costs increase by £2m. 2. Payback increases by 5 years
3	Construction delayed by 2 years eg through slow receipt of additional grants and loans	1. Capital costs increase by £3m. 2. Payback increases by 5 years
4	Private development of Area 5 does not happen	1. Lost revenue of £150k per annum. 2. Payback increases by 4 years
5a	Rental income – reduced occupancy to 50%	1. Revenue is wiped out and an annual cost of £100k per annum is required to operate the site – no payback
5b	Rental income – rental values 25% lower than expected	1. Annual income reduced by £250k per annum 2. Payback increases by 26 years.
6	Operating costs underestimated by 25%	1. Annual income reduces by £265k 2. Payback increases by 21 years

I. Project Funding

In addition to the loans, grants and capital injection so far offered (£20m), there are assumptions of further inward investment:

- Additional grant funding of £25m
- Additional PCC capital of £5m

Risk

1. There will be no further grant or other capital funding available. This would mean there is only enough funds available to prepare area I East and West Sites, and Build 3 buildings on Area I East. The PCC would therefore have to seek developers to develop the buildings in Area I West and complete Area I East, instead of the PCC building them (which will generate rental revenue). Without additional funding there will be insufficient funding available to prepare Area 5 for development. If this scenario developed then Area 5 site and plans would need to be mothballed and MoD security gates revised to avoid their ongoing revenue security costs.
2. If grant funding was reduced by £5m and capital funding increased by £5m, then the payback increases to 40 years.

Cost Implication

The capital costs would never pay back, and there will be an annual operational cost of £225k per annum.

2. Cost of construction

The cost of construction is assumed to increase by 4% annually,

Risk

This is below current estimated construction cost indexation which is around 6% but is hoped to be short-term assuming the market reacts quickly to demand.

Cost Implication

At 6% construction inflation, there would be a further £2m of capital required to complete the job, and it would take an additional 5 years for the project to pay back.

3. Speed of Site Development

The costings revenue and capital have assumed MIPC works on the site such as site preparation, demolition, new build and fit-out occur rapidly over the next 2 to 5 years in Area I and by 2022/23 in Area 5 which will therefore generate income via NNDR , service charge and rental for the Council where applicable. If grant funding is received later

Risk

That the speed of development and letting on the site occurs more slowly than anticipated in the model.

Cost Implication

If the project slips by 2 years, the cost of construction increases by £3m and payback increases by 5 years.

4. Area 5 Development

It is assumed that there will be developers interested in investing in the building and adaptation of Area 5, and the one building in Area I East.

Risk

That the cost of construction is too high to make a return on the rental values and the site will not be developed.

Cost Implication

Lost revenue from service charges, NNDR and car parking of £150k per annum. The payback increases by 4 years, but there is still a positive income annually.

5. Rental Income

There are a number of assumptions made around the rental income achievable on the site:

1. The rental income is based on a range of assumptions and estimates including high-level information provided by project consultants on our behalf albeit these estimates were originally intended primarily for cost comparison purposes and not for detailed budget setting
2. That occupancy of the new buildings is 60% in the first year, 80% in the second year and 90% thereafter.

Risk

There is a risk that these rents are not achieved.

Cost Implication

If rental values were to be reduced by 25%, annual income would fall by £250k and the pay back would increase to 56 years.

If occupancy on the site was only 50%, reducing rental income, NNDR and Service charges, annual income would be reduced by 800k. Resulting in a cost to revenue of £177k per annum.

6. Operating Assumptions

Operating costs, are the biggest unknown, with estimates for management costs, site running costs, PCC security and it is assumed building insurance can be passed on to the lessee.

Risk

That operating costs increase significantly above our estimates.

Cost Implication

25% increase in operating costs would reduce annual income by £265k and increase the payback period to 46 years.

7. Other Low level risks

- It is assumed that our loans will have an interest charge of 2%, the loan terms from the MOD are currently unknown. But majority of public sector monies will be grant rather than loans.
- Income from car parking and docks is assumed to be fully utilised once operational.

EQUALITY IMPACT ASSESSMENT

City Deal – South Yard MIPC



STAGE I: What is being assessed and by whom?	
<p>What is being assessed - including a brief description of aims and objectives?</p>	<p>Development of a Marine Industries Production Campus at South Yard currently part of the RN Dockyard in Plymouth. The aim is to redevelop 7.5 ha of land for industrial and commercial activities with a focus on promoting the marine and advanced manufacturing sectors. Once complete the site will create 1200 jobs. The Marine Industries Production Campus is the flagship project in the Plymouth and South West Peninsula City Deal Programme which also includes a Growth Hub to support businesses and a Youth Deal to improve employability and skills of young people.</p> <p>Given the scale of the development at South Yard the completed scheme will be of benefit to the whole of Plymouth and the south west peninsula in terms of jobs created, private sector investment and supply chain opportunities for local businesses. South Yard is situated in the neighbourhood of Devonport to the west of Plymouth City Centre. Therefore, the scheme will be of particular benefit to residents living in Devonport and surrounding neighbourhoods which are closest to South Yard. Unemployment and deprivation levels are higher in this part of the City than Plymouth as a whole.</p> <p>Recent public consultations in Devonport and with businesses identified strong support for the scheme particularly with the prospect of creating 1200 jobs</p>
Responsible Officer	Mark Turner
Department and Service	Place/Economic Development
Date of Assessment	27 th November 2014

STAGE 2: Evidence and Impact

Protected Characteristics (Equality Act)	Evidence and information (e.g. data and feedback)	Any adverse impact?	Actions	Timescale and who is responsible?
Age	<p>Plymouth as a whole has a similar population profile to that of England with exception of the 16-24 year old age group where Plymouth has significantly more than England. This is due in part to the higher student population in the City.</p> <p>The proportion of older people living in Plymouth (45+) is consistent with the national profile. A quarter of the Plymouth population is in the 45-64 age bracket indicating that a lot more people will reach retirement age in the next twenty years.</p> <p>The Devonport population profile is similar to Plymouth particularly in respect to</p>	<p>Plymouth along with the England faces a problem of an aging population with an increasing proportion of the population either retired or close to retirement. Employers will need to be increasingly flexible when recruiting older people</p> <p>It has been recognised that Plymouth struggles to retain graduates. It will be important for Plymouth to retain graduates to ensure local employers have a good supply of skilled people</p> <p>At a local level the demographic profile in Devonport indicates there is likely to be significantly more young</p>	<p>There will be ongoing consultation, monitoring and evaluation as this is a long term project and will be delivered at different stages and therefore will be constantly reviewed.</p> <p>Consultation has been undertaken and already influenced and determined the specific nature of how this programme of work is developed i.e. increase in job opportunities for the local community.</p> <p>As well as overall programme evaluation, the plans relating to each plan within the overall Programme Plan will be monitored and depending upon the nature of each of these plans will be subject to appropriate and specific</p>	<p>Start in next six months as part of planning for first phase of the project</p>

STAGE 2: Evidence and Impact				
Protected Characteristics (Equality Act)	Evidence and information (e.g. data and feedback)	Any adverse impact?	Actions	Timescale and who is responsible?
	<p>young adults. The latest neighbourhood profile for Devonport (2014) neighbourhood shows there are more young adults (20-29) in Devonport than other adult working age groups. However, it is likely that there will be higher numbers of younger parents in this age group than the City average as there is a higher percentage of young children in Devonport.</p> <p>There are fewer older retired people living in Devonport than the Plymouth profile</p>	adults of working age with young children in Devonport than the wider Plymouth population. This may impact on working age population accessing job opportunities	<p>public consultation.</p> <p>Regular reports outlining the ongoing progress will be presented to the South Yard Project Board and Growth Plymouth Panel.</p> <p>Will follow our corporate recruitment and retention policies and procedures. Where we commission we will ensure that this is built into the contract agreement to ensure there is no discrimination based upon Age.</p> <p>An example of the detail that will reviewed is the provision of childcare opportunities in area.</p>	
Disability	The Devonport Census profile (2011) indicates that there are significantly higher numbers of 16 to 64 year olds 'whose	High levels of sickness and incapacity in the surrounding neighbourhood will impact on ability of local	<p>As above</p> <p>Ensure new buildings in first phase of development are DDA</p>	Built into detailed planning application in next six months

STAGE 2: Evidence and Impact				
Protected Characteristics (Equality Act)	Evidence and information (e.g. data and feedback)	Any adverse impact?	Actions	Timescale and who is responsible?
	activities are limited a lot' in Devonport (7.9%) compared to Plymouth (4.7%). The Devonport Area Profile indicates that in 2013 there were 20% of adults claiming Incapacity Benefit and Employment Support Allowance compared to the Plymouth average 8.2	residents to access jobs often this will be the result of mental health issues associated with long term unemployment.	compliant and reasonable adjustments will be made as appropriate	
Faith, Religion or Belief	The Devonport Census Profile (2011) indicates that the predominant religion is Christianity (50%). There are traces of other religions most notably Muslim at 1%. This is consistent with the Plymouth profile	None at this stage	As above in Age	N/A
Gender - including marriage, pregnancy and maternity	The Devonport Area Profile (2104) indicates there are slightly more men than women in Devonport 51.6% as opposed to 48.4%. The Plymouth Census Profile	Nationally there are lower numbers of women entering professions in manufacturing and engineering.	As above in Age Ensure recruitment policies particularly apprenticeships encourage women to consider opportunities in manufacturing science	Within the next year working with Plymouth City Council Economic Development team, local training providers and employers.

STAGE 2: Evidence and Impact				
Protected Characteristics (Equality Act)	Evidence and information (e.g. data and feedback)	Any adverse impact?	Actions	Timescale and who is responsible?
	(2011) is a 50:50 gender split. The Devonport Census Profile (2011) indicates that household characteristics are broadly similar to Plymouth the profile		based roles. The Skills and Employability Strategy commissioned by Plymouth Growth Board has certain actions which will seek to address the gender gap in engineering and manufacturing careers.	
Gender Reassignment	None at this moment	None identified	As above in Age	N/A
Race	The Devonport Census Profile (2011) indicates 94.8% white population compared to 96.1% for Plymouth. Of the 5.2% Black and Minority Ethnic Groups in Devonport Black British is the largest contingent at 1% A proportion of the BAME community will be recent migrants, e.g. EU accession or Refugees.	No significant impact at this stage There is a potential for an emphasis on local recruitment to disadvantage these groups.	As above in Age Ensure that we monitor take up of skills development programmes etc to ensure that recruitment to skills development programmes reflect the make up of the local population.	N/A

STAGE 2: Evidence and Impact				
Protected Characteristics (Equality Act)	Evidence and information (e.g. data and feedback)	Any adverse impact?	Actions	Timescale and who is responsible?
Sexual Orientation -including Civil Partnership	The Devonport Census Profile (2011) indicated there were 4 same sex Civil Partnership Households in Devonport	No significant impact at this stage	As above in Age	N/A

STAGE 3: Are there any implications for the following? If so, please record 'Actions' to be taken		
Local Priorities	Implications	Timescale and who is responsible?
Reduce the inequality gap, particularly in health between communities.	Significant inequality gaps as evidenced by the Index of Multiple Deprivation (2010) in western parts of Plymouth particularly Devonport and Stonehouse with pockets in the 3% most deprived in the country. As indicated above the health of the local population is significantly worse than Plymouth and national averages *	See above for health inequalities
Good relations between different communities (community cohesion).	No implications at this stage	N/A
Human Rights	Article 14 of Human Rights Act states that - people have the right not to be treated differently because of their race, religion, sex, political views or any other status and therefore the right to receive Equal Treatment and prohibit discrimination including sex, race, religion and economic and social status in	N/A

STAGE 3: Are there any implications for the following? If so, please record 'Actions' to be taken		
Local Priorities	Implications	Timescale and who is responsible?
	<p>conjunction with the Equalities Act which includes age and disability.</p> <p>We are committed to ensuring that everyone is treated fairly and human rights will be respected.</p> <p>No adverse impact on human rights has been identified.</p>	

STAGE 4: The Principles of Fairness	
Principles	Comment
People should be able to access opportunity whatever their circumstances	Working with agencies such as Job Centre Plus and local employers to ensure everyone has access to opportunities
The city should give priority to those in greatest need when it allocates resources	High quality jobs created in area of high unemployment and deprivation
Things that make the biggest difference to people's lives should get priority when deciding where resources go	Provision of jobs has been the top priority in successive council surveys on resource allocation
The way things are done in the city matters just as much as what is done	Public consultations and local stakeholder engagement have already taken place on the sorts of jobs and activities that will take place in South Yard. This process will continue. Models of MIPC governance need to be developed and resident inclusion will be considered
Unfairness which takes time to remove needs policies for the long term	The programme will provide a sustainable source of employment in the long term which will help address deprivation and inequality in the local area.
Preventing inequalities is more effective than trying to eliminate them	Provision of well paid jobs in parts of the city that have high inequalities and lack of access to good jobs will help this
Services should be provided 'with' people, not 'for' them	See above on consultations

<p>The needs of future and current generations should be balanced when making decisions.</p>	<p>South Yard is a long term regeneration project. It will require a skilled force for generations to come. Other parts of the City Deal programme are targeting young people to encourage them to take up opportunities in advanced manufacturing sectors. Focused attempts by local agencies and employers to recruit locally in construction and implementation phases will be implemented</p>
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STAGE 4: Publication			
Director, Assistant Director/Head of Service approving EIA.		Date	

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