



**SCOTLAND
EXCEL**

**ROADS CATEGORY
STRATEGY DOCUMENT**

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1 Introduction

Scotland's councils are responsible for maintaining over 52,000km of roads, with over 7,000km being 'A' class roads and 45,000km of minor roads. Transport Scotland maintains Scotland's trunk roads, a total of 3900 km.¹

This Roads strategy document describes the current industry landscape and the short to medium term options that Scotland Excel can pursue in developing the portfolio of frameworks that support local councils' needs and helps to input into the national objectives as set out in The Government's Programme for Scotland 2019-20.

It takes the main themes and links them to future roads related developments, tightening budgetary constraints and local authority service delivery models and the opportunity for different strategic procurement models to help facilitate these changing landscapes.

The key strategic opportunities identified are:

- Increase quality of management information and use it as a tool to maximise council savings and identify new added value opportunities.
- Monitor and support delivery of community benefits and fair work practices and build on existing commercial relationships to increase access of Supported Businesses to public sector procurement.
- Where possible, remove procurement barriers and strengthen sustainability by understanding better the balance between longer term sustainability and the 'short term-ism' approach given increasing budgetary constraints.
- Monitor and support the influence that roads can have in tackling climate change and the impact of extreme climate on roads infrastructure and future technology requirements (e.g. flood prevention measures; roads repair; drainage, traffic/flooding sensors, smart signage, data collection and zero emission zones etc).
- Assess existing roads frameworks and evaluate alternative forms of delivery to future proof the portfolio.
- Ensure indexation is being properly utilised across the portfolio to maintain and improve competitive framework pricing.
- Target resources to the active management and promotion of the category benefits to improve framework uptake and minimise risk from other collaborative bodies.
- Augment mobilisation in new contract areas to improve knowledge and understanding of councils through targeted regional framework sessions and promoting appropriate Scotland Excel training courses, such as NEC contracts training.
- Monitor policy and legislation developments, assess impact on category portfolio of imminent changes and continue to represent and communicate with councils appropriately e.g. on outputs

¹ 2018 Scottish Transport Statistics

of the roads review.

- Support cross organisation work on Serious Organised Crime (SOC).
- Develop roads team capabilities to ensure there are the appropriate skills and resources to manage the portfolio.
- Assess new technologies and how 'roads' can help support the circular economy and the digital agenda where applicable.

The strategy will be reviewed on a regular basis with an updated strategy produced for 2021/22.

2 Landscape

The volume of traffic on Scotland's A and B roads has seen a steady increase over the last 20 years and the use of cars on Scotland's roads is still the first option for travel for the vast majority of the population. This means that Scottish councils must ensure that significant elements of their limited budgets are allocated to preventative and reactive roads maintenance. While some authorities increased their spending in recent years, overall council expenditure on roads maintenance continues to stagnate or decrease.

The most recent Transport figures indicate local authority expenditure of £221m on roads maintenance (including winter maintenance), and £63m on street lighting.²

To support the requirements of its member councils, Scotland Excel, as a centre of procurement expertise, currently manages a portfolio of roads related frameworks. These frameworks along with all public bodies are required to ensure that procurement decisions help to achieve the strategic objectives of the National Performance Framework, such as the reduction of carbon footprint, payment of the living wage and journeys by active travel.³

Scotland Excel's frameworks have an input into improving the Scottish Government's national indicators⁴ by ensuring that at the point of tendering, tenderers must satisfy criteria that determines if suppliers operate ethically and that they demonstrate their commitments to the environment and to ensuring quality control in producing products or providing services. Scotland Excel monitors suppliers and support the payment of the Real Living Wage to their direct employees. Scotland Excel's frameworks do not directly support the Scottish Government's Road Safety Framework targets but by ensuring products and services supplied meet the appropriate British / European standard we are able to ensure some of the that the key factors that contribute towards fatalities on Scotland's roads are limited.

A central national objective of the Scottish Government is "creating a more successful country with opportunities for all of Scotland to flourish, through increasing economic growth".

An efficient and well maintained transport network that enables the distribution of goods and services across the country quickly and economically is essential in helping to realising this goal. Supporting the transport network requires substantial investment in ongoing roads maintenance.

² 2018 Scottish Transport Statistics

³ <https://nationalperformance.gov.scot/>

⁴ <https://nationalperformance.gov.scot/measuring-progress/national-indicator-performance>

3 Current Position

Scotland Excel has currently seven live frameworks detailed as follows:

Framework	Status	No. of Suppliers	Finish Date (including any extension period)
Bitumen	Year 3 of framework	5	February 2021
Roadstone	Year 2 of framework	14	June 2022
Road Maintenance Materials	Year 2 of framework	19	August 2022
Salt for winter maintenance	Year 2 of framework	9	June 2022
Street lighting materials	Year 2 of framework	25	July 2022
Bulk Renewal of Luminaires	Last year of F/W	13	July 2020
Road Signage Materials	Year 2 of framework	11	November 2022

The above roads frameworks have a total annual forecasted value of around £80 million and are forecast to make significant savings over their lifetime.

3.1 Roads Frameworks

A brief summary of the products and current performance of these frameworks is shown below.

3.1.1 Bitumen (status finishes February 2021)

This framework has five suppliers appointed to five lots. This framework addresses councils' needs for bulk and packed bitumen plus related products for roads and footway repairs. Current expenditure for this framework to date is £27 million. The majority of expenditure for this framework is for penetration binders and surface dressing emulsion.

3.1.2 Roadstone (status finishes Summer 2022)

This framework covers a range of coated, uncoated and recycled roadstone, as well as ready mixed concrete to support the requirements of councils' road departments.

It incorporates a number of enhancements to the previous framework including additional products, the removal of any limits on the number of quarries or plants offered and an increased commercial focus on distribution costs.

This framework has fourteen suppliers appointed across four lots. Currently thirteen councils are utilising this framework with a spend of £10.4 million with savings of £1.3m.

3.1.3 Road Maintenance Materials (status finishes Summer 2022)

This framework covers the supply and delivery of an extensive range of commonly purchased road maintenance materials such as pedestrian safety barriers, drainage products, kerbstones, bollards and traffic cones to support councils' road departments.

This framework has nineteen suppliers appointed across seven lots. This framework has attracted spend of over £1.6 million in its first year with a reported savings figure of over £30k.

3.1.4 Salt for winter maintenance (status finishes Summer 2022)

This framework has nine suppliers appointed to seven lots. There are lots in place to address the requirement for bulk delivery of salt to harbours and depots. This framework primarily facilitates the bulk delivery of bulk salt from UK mines to support the councils' roads winter gritting operations. The majority of spend in this framework has been with bulk products but the logistics of moving large quantities of materials utilising shipping and road hauliers is significant. Another constraint on this framework is the necessity of delivering to schools within a very short window of opportunity due to safety considerations with children. There are also lots to provide de-icing products and equipment such as spreaders and salt bins. Expenditure on salt has been £15 million to date. It is worth noting that this is a highly restricted market with only a very limited number of salt mines operating in the UK.

3.1.5 Street lighting materials (status finishes Summer 2022)

All Scottish councils are engaged with this framework and it is attracting significant expenditure. Current expenditure on this framework is over £13 million with savings of almost £2 million. It is currently forecast that this framework will attract over £100 million of expenditure based upon actual spend to date. The key expenditure on this framework is with Lot 1 – LEDS. Councils are well underway with the process of replacing SOX and SON lights with LED lanterns. The savings from LED replacement are significant to councils both in terms of energy efficiency; an LED lantern typically pays for its whole life cost in six years, and maintenance costs, as LED lanterns attract average warranty lengths of twelve years. The other lots service councils' needs for lighting columns, non-led lanterns & lamps and cabling products.

3.1.6 Street Lighting – Bulk Renewal of Luminaires (status finishes July 2020)

This framework has twelve suppliers across a single lot. This framework provides councils with a mechanism to replace large volumes of SOX and SON lanterns with LED lanterns. The scope of the framework includes all works required for the bulk replacement of street lighting luminaires. This may include additional, ancillary and enabling works as required. The framework is primarily aimed at the works element only and it is anticipated that the council will provide the bulk of the materials to be used for the works.

The framework supports progression of, "invest to save", energy efficiency programmes. The benefits arising from this framework include reducing energy revenue running costs and meeting national carbon reduction targets. This framework also allows councils to bulk replace lanterns with non LED lanterns.

Note: as this framework did not attract the originally anticipated level of spend or participation from local authorities, the decision was taken not to renew this framework.

3.1.7 Roads Signage Materials (status finishes November 2022)

This framework has eleven suppliers appointed across four lots covering a variety of external roads related signage and associated posts and equipment. 31 councils are engaged with this framework. The spend across participating authorities was forecasted at an average of £1.25 million per annum equating to approximately £5 million over the term of the framework.

4 Opportunities and Risks

The wide and diverse nature of the roads portfolio means that there are various risks and opportunities which can impact the portfolio.

4.1 Opportunities

- Scotland Excel's frameworks are truly collaborative which present an opportunity for councils and suppliers to work together for more successful framework partnerships. Council officers are involved in the development of the frameworks from the earliest stages of the procurement journey.
- Scotland Excel is in a unique position in having all 32 councils as members, with the organisation facilitating co-operation and collaboration across all members.
- Driving compliance through framework requirements with regulations at both EU and national levels.
- Enable customers to purchase easily for direct call off and mini- competitions.
- Flexible frameworks for customers to purchase non listed (core products).
- Contract management is handled centrally on behalf of customers and suppliers.
- Products are required to conform to specifications often at an ISO level.
- Products may be required to be certified by a UKAS accredited facility.
- SME's, Scottish based SME's as well as supported businesses are encouraged to become suppliers through effective market engagement.
- A key objective for Scotland Excel is to realise savings for our customers with significant validated savings being realised in the roads category.
- Broadening the roads category portfolio to develop complimentary service frameworks that allow access to our bulk supply frameworks.
- Relationships with other collaborative agencies that include Tayside Contracts, Improvement Service, SCOTS lighting group, Zero Waste Scotland, Scottish Futures Trust and the Ayrshire Roads Alliance.
- Opportunities to revise current frameworks through core product reviews and framework renewals to make frameworks more attractive for both councils and suppliers.
- The use of NEC3 contracts in frameworks such as Street Lighting Bulk Renewals is attractive to councils in terms of framework operation and contractual benefits.

4.2 Risks

- Councils looking to access managed service type frameworks in the future as they move towards more flexible approaches to working practises.
- Lack of engagement with key stakeholders within councils could result in frameworks not offering an optimised solution to customers.
- Customers can often find mini competitions onerous and complicated and report a high degree of frustration in understanding how to properly implement them. Customers have highlighted that mini competitions require a significant amount of resources.
- Ensure Roads Portfolio framework lots are designed to drive best value through consolidated lot structures. It is important for the framework lots to include the correct mix of products for the user whilst remaining consolidated enough to allow ease of user for both the user and supplier and to remain attractive to potential tenderers.
- Not seeking technical knowledge of roads maintenance as part of the consultation process when tendering and managing frameworks can result in a lack of understanding of framework operation and product application.
- Lack of market and individual product knowledge can result in lack of knowledge of innovation in the road maintenance industry. The last five years has seen changes to a number of areas in the industry changing the profile of council spend.
- Budget cuts and an ageing workforce is forcing councils to adopt new and innovative

approaches to road maintenance including the pooling and flexible use of resources and partnerships between councils and the private sector. To date, East Ayrshire and South Ayrshire Councils have formed the Ayrshire Roads Alliance to pool resources and consolidate purchasing power. North Lanarkshire Council have also entered into a Public Private Partnership with Amey for roads maintenance.

- An emerging risk for the roads portfolio is the managed store solution being adopted by councils. This is where a supplier takes control of council stores and becomes responsible for the supply and management of all related goods to the council. Councils which put this type of arrangement in place no longer have a requirement to purchase from the existing roads frameworks, diminishing the collaborative buying power currently experienced through the Scotland Excel arrangements. To date East Dunbartonshire Council has already migrated to such an agreement, with their bitumen requirements being sourced through this arrangement.
- At the point of writing this strategy, the threat of a no deal Brexit is looming large and this may have a significant impact on the commercial performance of some of the frameworks. For example, if there are tariffs imposed on EU imported products or a negative run on the pound, there could be increased prices imposed on the frameworks.

4.3 Stakeholder Relations

Scotland Excel has met face to face with key suppliers for the roads frameworks where practical. Where this has proven impractical teleconference meetings have been held. Suppliers have been engaged according to the segmentation level indicated as necessary for effective contract management. The feedback from suppliers has provided influence into this overarching strategy.

Scotland Excel have been involved in various collaborative events and group meetings including:-

- Traffex Scotland 2019
- APSE Scotland Roads & Street Lighting services advisory group
- Various roads related UIG's and Roads Forum
- Various council and Tayside Contracts engagements
- SCOTS lighting group meetings

It is worth noting that the products and services provided on these frameworks are, in the main, specialised and require a high degree of input from technical experts and end users in informing the technical nature of the products and services. Procurement officers will be required to develop a consultative approach with key stakeholders from both suppliers and councils to understand the market and the services and products provided under these frameworks. These relationships should be further developed to foster a consultative approach to shaping future requirement and ensuring that Scotland Excel's contribution continues to be both relevant and adding value to our customers.

The aim here is to improve our stakeholder relations and ensure that, in overall terms, the roads strategy is aligned to our current and future customers' requirements.

4.4 Trends in the market place

Increasingly councils are seeing partnerships with key suppliers as an attractive solution. These partnerships include managed stores solutions for the council (for example, East Dunbartonshire Council) and the full outsourcing of roads maintenance activities (North Lanarkshire Council). Road maintenance is increasingly being managed in the context of wider infrastructure strategies.

Supply market analysis demonstrates a mature and highly competitive supply base with demand forecasted to increase in the global market over the next five years due to the rise of infrastructure development in emerging economies and in the domestic market here in the UK due to increased investment in roads infrastructure.

4.5 Workforce Matters/Apprenticeships

Road maintenance services are labour intensive and these are ideal types of operations where creating employment and apprenticeships could be a major advantage to creating sustainable employment. Other areas that could be an opportunity could be in school and college placements and work experience to help develop an understanding of technical and road construction and maintenance skills.

By incorporating workforce matters into the procurement of these goods and services, Scotland Excel can help not just create local jobs, but create careers for young people and help ensure they are well paid and are sustainable into the future.

4.6 Serious Organised Crime (SOC)

Although roads and roads related services have not been traditionally an area of the economy that serious organised crime (SOC) has featured particularly heavily, it is vitally important that public money does fund and support criminal activities. Scotland Excel has engaged with Police Scotland and the Scottish Government on how to prevent suppliers with connections to SOC being awarded onto our frameworks, and we will continue to engage with these bodies going forward on the best methods to deal with this important area.

5 Market Pricing

For Scotland Excel's purposes, indexation provides a statistical method to compare the percentage change in market prices (the Market Index) against the percentage change of framework prices (the Contract Index) for each of its frameworks.

There is a diverse range of indices associated to Scotland Excel's portfolio of roads frameworks, with a focus on inflation, diesel and exchange rates. As the markets for each framework are not closely linked they all display differing trends but generally indicate better than market norms.

Overall Scotland Excel indexation for the roads category is stable. In general the roads frameworks perform as strongly on indexation with frameworks maintaining strong price indices.

The extensive core lists on the frameworks mean price negotiations are targeted to high spend items which is not accurately reflected in general commodity market indexation. Any future review of the roads portfolio should take into account the impact on indexation.

A summary of the primary indices within the roads portfolio are below:

5.1 Consumer Price Index (CPI)

CPI is tracked for a number of frameworks within the category and is used to show changes in the rate of inflation. The CPI calculates the average price increase as a percentage for a basket of 700 different goods and services which are changed to reflect society's buying habits. An increase in inflation may indicate an increase in supplier overhead costs or, particularly important to the roads service contracts, salary increases.

5.2 Oil/Diesel

The price per litre of diesel was at a low point of 101 pence per litre in February 2016, however it had risen to 136.7ppl by October 2018 and by September 2019 was sitting at 131.4ppl.⁵

The price of diesel and oil could affect goods and services being supplied through many of the roads frameworks with the cost of transportation/delivery could be subject to fluctuation although many suppliers already undertake bulk deliveries, potentially negating the impact of delivery cost changes.

⁵ <https://www.statista.com/statistics/299552/average-price-of-diesel-in-the-united-kingdom/>

5.3 Exchange Rates

Exchange rates provided from the Bank of England are used to track fluctuations in currency. As it currently stands and with major uncertainty still surrounding the exact terms of exiting the EU, the strength of the pound remains relatively weak and this could result in further price rises, especially for imported products.

Following the General Election of December 2019, there may be an increased risk of negative currency fluctuation which could impact supply chain costs and therefore increased framework pricing.

5.4 Metals

Overall, prices of metal in the last few years have dropped significantly however some suppliers would propose that some of the fall is cancelled out by increases in the cost of manufacturing. Considering steel in particular, the dramatic fall in price is likely due to the oversupply of steel into the market, which is currently around 600m tonnes of steel annually. The Bank of America Merrill Lynch consider the global oversupply of steel so damaging that they are calling the next few years "Steelmageddon."⁶

6 Strategic Opportunities - The 'road' forward

6.1 Shorter term opportunities (24 months)

Scotland Excel has a number of opportunities that can be implemented over the next twenty-four months.

An analysis of the contracts registers has highlighted significant expenditure in surface dressing. An opportunity may exist for determining the viability of introducing road service frameworks to the roads framework portfolio. The frameworks delivered by Scotland Excel's Operational Supplies and Services (OSS) function have suggested that small focused frameworks can be delivered effectively by Scotland Excel.

A key objective for Scotland Excel is to capture non framework expenditure within the portfolio by proactively engaging with our stakeholders and in turn encouraging an increased council participation.

A number of opportunities have been identified and include:

- Increased stakeholder engagement – become the number one choice of councils for roads procurement projects.
- Improve framework usage - ensure that the maximum number of councils that could utilise the Scotland Excel frameworks do so.
- Continue to engage with councils and service providers to ensure most effective contract delivery and best value.
- Investigate the potential for a framework for surfacing works with a restricted scope.
- Investigate opportunities for other small focused service frameworks that will complement the existing supply and delivery frameworks.
- Engage with customer account managers and the marketing team to increase council focus and participation on the roads frameworks.
- Ensure frameworks are easily accessible for users.

⁶ <https://www.cnn.com/2019/03/19/steel-stock-investors-beware-price-crushing-steelmageddon-is-coming.html>

6.2 Medium term opportunities (48 months)

Managed solutions may provide opportunities for our stakeholders. Two councils have recently elected to outsource the management of their warehousing requirements. It should be noted that this form of service contract could involve issues such as TUPE.

An approved suppliers list where suppliers must only pass a qualification element and submit rates for certain frameworks would enable flexibility for customers for issuing projects for bids through mini competitions (e.g. a Dynamic Purchasing System – DPS type arrangement). An advantage for Scotland Excel would be that we would reduce the level of contract management. This type of solution is currently used by the Ayrshire Roads Alliance and is regarded in local government as very successful. The suppliers are evaluated on a job by job basis and ranked with the highest ranked supplier being offered the work packages first. This solution however relies on a bespoke IT solution.

Customer and supplier engagement is key for successful management of this category. Scotland Excel should continue to engage with suppliers and stakeholders on a regular basis as part of ongoing Contract Management of road frameworks.

Goals

- Provide a portfolio of contracts that councils can utilise for all road work activities from procuring goods, storage of goods and services that will apply the goods.

Actions

- Determine the number and value of roads contracts tendered by councils over the last 12 months.
- Investigate managed solutions contracts.
- Engage with Councils roads managers to fully understand their future roads strategies.

7 Conclusions

Roads contracts face a very challenging environment because of reducing expenditure by councils versus high expectations from the general public. However, the value of roads service contracts for our councils is significant. A key indication is that where ever a supply contract is placed there may be a complementary service contract being implemented that does not form part of our current portfolio.

It is also worth noting that councils have an ageing workforce and a skills gap may develop as time progresses. Councils are also in the process of disposing of fixed assets meaning that in many cases there is limited storage space. This means frameworks may be required to offer the hire of equipment and scheduled delivery times to allow more frequent deliveries in smaller quantities.

Scotland Excel have a significant role to play in assisting councils meeting their road maintenance and street lighting service deliverables in these challenging times. To ensure that Scotland Excel continues and strengthens its position as the procurement partner of choice for councils, it is important that it has in place the requisite skills and resources required to meet these challenges and opportunities.