

Corporate Infrastructure and Regulatory Services  
Scrutiny Committee

# Milestone Spotlight Review

September 2021

# 1. Recommendations

The spotlight review asks the Corporate Infrastructure and Regulatory Services and Cabinet to endorse the recommendations below, with a report against progress of the recommendations in 6 months time:

- 1. Extend the highways maintenance contract held with Milestone Infrastructure, taking advantage of the full option to extend by three years.**
- 2. As part of the extension review the contract Service Information to meet the changing needs of the organisation and the population of Devon.**
- 3. Communicate successes and measurables in Highways through the CIRS committee and in briefings for Councillors to share with Town and Parish Councillors as well as with Members of the Public.**

# 2. Introduction

2.1 This Spotlight Review was established following the June 2021 Masterclass session setting the Scrutiny Work programme for the municipal year. The timing for this Spotlight review was determined by the Council's need to make a decision on the Highways Maintenance contract.

2.2 Milestone Infrastructure currently hold a seven-year contract to provide highways maintenance services to Devon County Council. The contract was let on the 1<sup>st</sup> April 2017 and is due to expire in 2024. There is the option to extend the contract for up to three years, but this needs to be fully considered.

2.3 The Scope of the review was as follows:

*Scrutiny Councillors to consider the evidence and make recommendations to Cabinet about whether to extend the current highways contract or to make arrangements for alternative service delivery.*

This is a time-critical project as a decision needs to be taken and ongoing service provision determined as soon as possible.

2.4 The spotlight review took place on the 2<sup>nd</sup> September in the afternoon in a remote meeting via Teams. Membership is detailed at the end of this report.

2.5 The Spotlight Review draws upon some of the work undertaken by Scrutiny in the 'Planned and Reactive Maintenance' Scrutiny Report of Jan 2019 when there were concerns about the performance of the contract<sup>1</sup>. It should also be stated that the Corporate Infrastructure and Regulatory Services Scrutiny Committee have performance updates at every meeting across the whole highways service<sup>2</sup>. Members of the Scrutiny Committee have been satisfied with performance.

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<sup>1</sup> [Appendix 1: Terms of reference template \(devon.gov.uk\)](#)

<sup>2</sup> [Browse meetings - Corporate Infrastructure and Regulatory Services Scrutiny Committee - Democracy in Devon](#)

## 3. Milestone

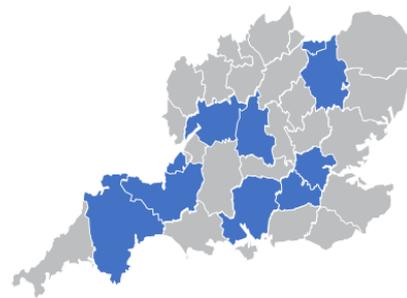


A part of **MGroup**Services

3.1 M Group claim to be the leading essential infrastructure services provider operating within water, energy, transport, and telecommunication across the UK & Ireland. They currently have a turn over £1.6bn, employing 10,000 people across 240 locations.<sup>3</sup>

3.2 Milestone operate across 3 key sectors, those being Highways Maintenance, Street Lighting Maintenance and Civils Projects. Focusing on Highways Maintenance, they have the following contracts with Local Authorities:-

- Devon County Council
- Somerset County Council
- North Somerset Council
- Hampshire County Council
- Oxfordshire County Council
- Cambridgeshire County Council, and
- Peterborough City Council



3.3 Milestone reported to the Spotlight Review that they would welcome the opportunity to discuss an extension to the contract. Representatives from Milestone Infrastructure also discussed their willingness to hold further collaborative discussions with Devon County Council Officers about opportunities for additionality and areas to focus attention further.

## 4. The current contract

4.1 The current highways contract, written in 2015, is in year five of seven with options to extend up to ten years. Milestone Infrastructure are Devon County Council's primary partner and make up the informal Devon Highways organisation, but the contract delivers less than 50% of DCC's overall highways budget. This is in the region of £30mil a year. Included in the contract are the following:

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<sup>3</sup> [M Group Services | At a Glance | M Group Services](#)

### Overview of Contract

- |  |   |   |
|--|---|---|
| <ul style="list-style-type: none"> <li>• Resurfacing</li> <li>• Patching</li> <li>• Dragon Patcher</li> <li>• Drainage Cleansing</li> <li>• Drainage Schemes</li> <li>• Footway Schemes</li> <li>• Traffic Signs and Markings</li> <li>• Safety Defects</li> <li>• Highway Safety Inspections</li> <li>• Winter Service</li> </ul> |  | <ul style="list-style-type: none"> <li>• Surface Treatments (SD/MA)</li> <li>• Road Restraint Barriers</li> <li>• Arboricultural Works</li> <li>• Street Lighting</li> <li>• Traffic Signals</li> <li>• Public Rights of Way</li> <li>• Major New Infrastructure</li> </ul> |
|--|---|---|

(taken from presentation given in the spotlight review by Rob Richards)

### Contract History

- 4.2 The original contract in April 2017 was between Skanska Infrastructure Services and Devon County Council. This changed in April 2021 when Skanska UK divested themselves of Skanska Infrastructure Services. This represented about 20% of Skanska total holdings. MGroup Services bought the Infrastructure Services Business which included approximately 25 different infrastructure maintenance contracts and formed a new business called Milestone Infrastructure Ltd.
- 4.3 At this time 320 staff TUPE'd across from Skanska IS to Milestone Infrastructure Ltd. This has led to continuity with the same people working on the contract locally. All existing terms of the contract remain, including the potential contract extensions.
- 4.4 The focus in the early years of the contract were about getting the contract up and running. Councillors did have concerns early in the contract history as already mentioned; however, most performance concerns have been resolved. The partnership has been able to successfully address these challenges in part due to the strength of the relationships that underpin Devon Highways. One of the key quality undertakings at the commencement of the contract was the development of a collaborative framework. This has been developed and is externally certified and audited against the international standard ISO 44001.
- 4.5 Milestone have reported that they have greater autonomy to make decisions under the current arrangements. Appendix 1 summarises the performance objectives that are agreed as part of the current contract.
- 4.6 Members of the Spotlight review were reassured about Milestone Infrastructure's ability to manage the size of Devon's 12,800 kilometres (8,000

miles) of road. This includes having nine operational depots across the County and an additional 6 for winter. With a clear emphasis on consistent communication and discussion of expectations.

- 4.7 The Spotlight review also heard that Milestone Infrastructure largely self-deliver activities; only subcontracting resurfacing, and white lining. The remainder of activities generally work under the instruction of Milestone operatives.

### **Achievements under current contract**

- 4.8 During the current contract there have been many notable achievements including:

- Safety defects and asset delivery have been reviewed as part of 'doing what matters', (the Council's systems thinking redesign of the way in which services are provided). This has improved the efficiency of the service through new inspection software, and new training to make sure new safety defect repairs work first time, every time.
- Environment – awareness and compliance. Introduced new process in classification of waste and minimise waste costs.
- Four new 'Dragon Patchers' have contributed to the reduction in safety defect numbers. Focussing upon preventative treatment. The Committee are invited to view the dragon patcher before the committee meeting on the 23<sup>rd</sup> September.
- Emptying more gullies because of the building of wet waste bays to take the water out of gully waste and deal more efficiently with it.
- Supported the biggest ever Capital delivery year.
- Safety and critical highway works continued through lockdown and the term contractor gradually resumed planned work while much of the construction industry remained in furlough.
- Quality focus: on a journey to improve quality. Identifying important service areas and ensure that operatives know what is required. Performance Improvement Teams (PITs) collaboration on performance reviews, this includes increased transparency. Including inspection test plans and benchmarking with the gangs making sure that specification is met. Last year in excess of 1,000 quality audits were undertaken.
- Priority area of winter service with the Winter Service workstream which reviews annual performance, considers national guidance and has produced a resilience plan. Throughout the contract winter service has remained a high performing area and extreme events such as the 'beast from the east' and storm Emma in 2018 were well managed.
- Strong collaboration, externally audited, including an annual survey working to clear vision and charter. The most recent survey shows that 95% who responded said they had an excellent or good relationship with their Devon Highways partners.

## 5. Contract considerations

- 5.1 The contract is managed in accordance with New Engineering Construction Contract Principles. This provides a well-tested framework for managing the contract including Early Warning Notices. This enables more productive conversations in managing risk and working with the provider to resolve problems as soon as they arise. When there is an issue parties are encouraged to get round the table and discuss resolution at the earliest opportunity. The contract also includes a clear framework for managing Compensation Events to value unforeseen costs. A limited number have been raised as part of the current contract.
- 5.2 Considering the evidence session in the Spotlight Review the following two SWOT analyses have been completed. These clearly show that there are more numerous but also more detailed opportunities and strengths in extending the current contract.

### Option 1: Not extending the contact and going to the market to retender the service:

#### Recommissioning the service:

##### Strengths

- New provider may bring different innovations

##### Weaknesses

- £1.5 mil to retender
- 3 years disruption
- Loss of relationship and work to develop good outcomes

##### Opportunities

##### Threats

- 24 highways authorities coming to market in next 5 years
- Less providers in the market
- Uncertainty—materials shortage and inflation

### **Strengths and opportunities:**

- 5.3 The spotlight review could consider no strengths in going to the market, and only the tenuous opportunity that is untested, where finding a new provider might bring additional or different innovations.

### **Weaknesses:**

- 5.4 The spotlight review was informed that costs associated with a highway service retender are typically £1.5M and there would be an impact on collaboration and likely contract performance over several years as a contract demobilises and a new one is implemented.
- 5.5 Further work would be necessary to assess potential future delivery models and once determined, to procure a new contract. The spotlight review heard that officer experience would suggest that a lead-in of 3 years is necessary to do this thoroughly. Considering this against the current contract timescales, to do this adequately would be tight. The Spotlight Review were also informed that the Service is currently operating at capacity and service delivery might be compromised to divert resources to deliver such an important piece of work.
- 5.6 It also goes without saying that the relationships that have been developed may also be affected.

### **Threats**

- 5.7 Research by the Future Highway Research Group indicates that 24 highway authorities are seeking to retender over the next 5 years, and therefore market conditions would favour suppliers in contract pricing. National research also identifies strong collaboration is the key driver for success, rather than market competition.
- 5.8 The Spotlight Review was also informed (see appendix 2) about the difficulties of the market conditions and significant inflation for materials. This is a threat regardless of the change of provider and therefore appears in both lists.

## Option 2: Extending the contact with Milestone

Extending the contract with Milestone	
<b>Strengths</b> <ul style="list-style-type: none"><li>• Current collaborative relationships</li><li>• Willing/keen to invest in plant and equipment</li><li>• Culture promoting social value, environment and wellbeing</li></ul>	<b>Weaknesses</b>
<b>Opportunities</b> <ul style="list-style-type: none"><li>• Understanding wider capability:<ul style="list-style-type: none"><li>- Reduce costs that aren't adding value</li><li>- Re-purpose roles and integrate teams</li></ul></li><li>• Innovation and green opportunities for Carbon reduction plan</li><li>• New ways of collaborating post-covid, developing greater innovation.</li></ul>	<b>Threats</b> <ul style="list-style-type: none"><li>• Uncertainty—materials shortage and inflation</li><li>• Challenges in recruitment/retention</li></ul>

### Strengths

- 5.9 The spotlight review heard from both Devon County Council officers and Milestone representatives about the collaborative relationship. This is evidenced by the number of developments and achievements already detailed in the report.
- 5.10 Milestone clearly articulate their intention as part of the wider MGroup, as well as their historical performance that they are willing to invest in infrastructure to support the highway maintenance contract for the benefit of Devon residents.
- 5.11 Milestone also talked about their culture of valuing relationships and people and promoting social value and in recent years working to support wellbeing and taking already described actions against Devon's climate emergency.

## Opportunities

- 5.12 The Spotlight review heard about the opportunities that Milestone representatives outlined with regard to other capabilities that could be offered since becoming part of MGroup. This could go further than previous work and reduce costs but also look at the most effective way to structure teams.
- 5.13 The Spotlight Review were informed about developments and further opportunities that Milestone Infrastructure have undertaken to work to DCC's climate emergency and carbon reduction plan. These include using Low Temperature Asphalt, telematics to monitor and address vehicle usage, increasingly operate electric vehicles and charging, use route planning optimisation to limit travel and the benefits of carbon neutral energy suppliers across all our depots. Current carbon mitigation activities include the use of HVO fuel which has the potential to address a large part of the carbon footprint generated by Devon Highways schemes by reducing the CO2 emissions from the highways fleet by 90%.
- 5.14 Finally, there are further opportunities in working differently prompted by the global pandemic. This would capitalise upon the understanding, knowledge that Milestone have and ultimately on the positive working relationship with Devon County Council.

## Weaknesses and threats

- 5.15 The spotlight review could identify no weaknesses in extending the contract. The threats identified are likely to apply to any provider, and are threats arising from the current climate, with the global pandemic and BREXIT and are not specific to Milestone.

## Further Opportunities

- 5.16 The nature of the high volume of relatively low value works orders requires a high level of administration. Individual task orders are developed and executed for many individual works items. There is an opportunity to rebuild these processes to allow the repurposing of staff time to work more collaboratively and focus on improving the quality of service delivery.
- 5.17 There is also a long lead-in time to schemes and programme management. Much of this is driven by regulations such as permitting or safe working. However, it would be good to work towards greater flexibility to provide a more responsive service to tackle public concerns where appropriate. This would be possible by moving towards a more collaborative relationship with a different delivery model that incorporated design and build solutions.

## 6. Conclusion

- 6.1 The spotlight review believes that there is a clear opportunity to continue to work with Milestone Infrastructure, building upon the lessons learnt under Skanska and developing the learning and understanding in Devon. The information reviewed and witness sessions undertaken for the Spotlight Review

clearly pointed that the best decision for Devon County Council would be to extend the contract arrangements to the full ten years.

- 6.2 Members of the Spotlight Review articulated their experience of the journey of improvement in the highways service and their optimism of the opportunities that Milestone Infrastructure offer. In particular Members would be keen to understand how social value and green investment and carbon reduction will be considered under the remaining years of the current contract as well as possibly written into a contract extension.
- 6.3 This Scrutiny committee has repeatedly asked Cabinet to lobby Central Government to provide consistency in funding settlements on at least a four-year cycle; and Cabinet has done this. This contract provides further evidence for the case of Central Government giving funding certainty to enable Local Authorities to gain best value for money for local people with long term contract decisions underpinned with certainty of funding forecasts.
- 6.4 Finally, the Spotlight review wished to place on record their thanks and commendation to the staff of Milestone Infrastructure, and Devon Highways throughout the pandemic.

## 7. Sources of evidence

The Task Group heard testimony from a number of witnesses and would like to express sincere thanks to the following people for their contribution and the information shared:

<b>Rob Richards</b>	Group Manager, Highways and Traffic Management Devon County Council
<b>Justin Bennetts</b>	Strategic Procurement Manager, Devon Procurement Services, Devon County Council
<b>Simon Kane</b>	Contract Manager   Milestone Infrastructure
<b>Nigel Tomlinson</b>	Business Director   Milestone Infrastructure

## 8. Spotlight Review Membership

The Group was chaired by Councillor Alistair Dewhirst and membership was as follows:

Corporate Infrastructure and Regulatory Services	
Councillor Alistair Dewhirst (Chair)	Councillor Colin Slade
Councillor Marcus Hartnell	Councillor Marina Asvachin
Councillor Yvonne Atkinson	

Councillor Stuart Hughes, as Cabinet Member in attendance.

## 9. Contact

For all enquiries about this report or its contents please contact

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## Appendix 1: performance objectives as part of the contract

### Quality Performance Objectives

- Collaborative working framework certified to ISO44001
- Programme accuracy using collaborative planning
- Operate this contract digitally
- Use social networks
- Create employment and training opportunities for the residents of Devon
- Reduce defect notices & proactive quality management
- Intelligent network investment
- Identify and record ideas for new ways of working
- Joint contract affordability review every three years
- Continuous improvement using Systems Thinking

## **Appendix 2: Highways infrastructure – market conditions**

### **Infrastructure market update**

The highways infrastructure market is in a sensitive period currently with some challenging market conditions. There are some market pressures, some volatility and lots of change taking place. Numerous factors are bearing an influence: the pandemic recovery effect is surfacing high levels of pent-up demand, there are raw material production and transportation capacity issues, and supply limitations due partly to the market having downsized through the pandemic and not yet escalated upscaled to meet new capacity needs.

### **Headlines – current industry position**

Providers for Highways Term Maintenance services typically also work in the construction industry; DCC's links with the infrastructure supply market are giving a common picture which matches the industry narrative:

1. There is significant growth in the UK construction sector with plentiful market workload and lots of pent-up demand;
2. At the onset of the pandemic there were major reductions in infrastructure workload amid much uncertainty, in response to which contractors swiftly downsized; this has created significant infrastructure services bottlenecks which the market does not currently have capacity to deliver.
3. While the UK is looking towards pandemic recovery, this is not equally so internationally where raw materials are produced, amid much uncertainty.
4. Suppliers have consolidated and are being very selective in work bid for.
5. This is generating inflationary rises through increased demand and imbalanced supply of labour and materials, clients are competing amongst one another for common resources and suppliers are bidding selectively.
6. Market providers are looking for where they can achieve reliable returns most readily. This is influencing their resourcing decisions and what future work they bid for; we are not seeing a broad industry benevolence towards prioritising public sector work.

### **Market pricing**

The construction materials price index is currently at an all-time high. The construction materials price index rose 4.5% in July '21, and 20% on the year.

Cost drivers for term maintenance services include labour and the price of crude oil. At the start of the pandemic crude oil did reach a market price low when global consumption radically decreased, until barrel production also reduced. Since then, production has steadily increased and its market price has increased by 73% in the past year. Longer term, since Devon's Term Maintenance contract began in April 2017, the crude oil price has increased from \$55 per barrel to now be \$125 per barrel, a rise of 225%. Petrol prices have risen consecutively for 39 weeks.

The price of steel has risen by 130% on the year. Where historically bulk steel would have a six week lead time, this has pushed out to well over a year.

The price of natural gas risen 117% (CIPS indices). The GBP exchange rate remains low at 1.16 GBP to the Euro, adding to price pressure.

A combination of higher demand and mismatched supply capacity is leading to higher prices. However even more important than price inflation, is the ability to obtain materials and labour on a consistent and reliable basis.

## **Supply chain availability**

### **Materials**

The traditional norm has been that providers operate on a 'Just In Time' basis for materials supply and carry minimal stock. There was some industry materials stockpiling in winter 20/21 as a buffer through Brexit transition. These stocks have now been consumed. Current manufacturing and transportation challenges have highlighted fragility in Just In Time operations.

### **Labour**

Suppliers are reporting a proportion of international workers returned home early in the pandemic and have not all yet returned, amidst a backdrop of pandemic travel uncertainty and low rate of the pound. This compounds longstanding industry skills shortages and is giving lower resilience in supply chains. It is affecting frontline service delivery which will take time to balance.

Industries are seeing high labour movement as people seek new opportunities, businesses seek to fill vacancies and labour stability is becoming more difficult. A current example is operators of heavy equipment – for which Devon's TMC requires lots of such skills.

## **Summary**

The infrastructure market has a lot of workload at present, plentiful work to bid for and demand and supply are mismatched. Clients are competing for finite resources and service providers are having to make supply choices. As such there are some risks and uncertainties in the current marketplace for infrastructure services.

Amidst this current market backdrop it could be considered that stability, predictability and assurance of work would be advantageous, with a partnership ethos as a platform for strategically critical services.

Justin Bennetts,  
Devon Procurement Services.