

PERFORMANCE SCRUTINY COMMITTEE – 9th JANUARY 2013

HIGHWAYS PARTNERSHIP CONTRACT WITH ATKINS/SKANSKA

Report by the Director for Environment and Economy

Introduction

1. The Highways Partnership Contract was awarded to Atkins to commence on 1st April 2010. Atkins were appointed after an extensive procurement exercise during which the integrated contractual arrangements were developed. Atkins were appointed to deliver services for a 10 year period, with the potential of extending for a further 10 years based on performance. The contract has an annual value of around £28 million which varies annually depending on the capital programme being delivered.
2. The contract commenced on 1st April 2010. Works included within the contract are split into core services and schemes. Core Services are usually revenue funded and include mainly routine maintenance activities such as safety defect repair, gully emptying, winter maintenance (gritting) and grass cutting. Core Services account for around 50% of the annual turnover through the contract. Schemes are usually capital funded and include structural maintenance schemes and improvement schemes up to £1 million in value.
3. In 2012 a change of direction within the Atkins business meant that they wished to focus on their traditional consultancy services and divest themselves of the highway contracting services. As a result of this change in policy Atkins sold their Highway Services business to Skanska AB with effect from 4th October 2013.

Background to the appointment of Atkins/Skanska

4. The proposed integrated contract required that the tenderers should have an in depth knowledge of the business and also that the council should fully understand the ability of the potential provider to deliver the full range of services required. To allow this dialogue to happen and because of the complexities of this procurement the 'Competitive Dialogue' procurement route was used.
5. During dialogue the Council sought participants views on the full range of issues related to the potential Contract and which included the following:
 - Scope of services and appropriate service level specifications and the avoidance of "gold plating".
 - Risk allocation, in particular views on risks that are better retained by or shared with the Council that will avoid unnecessarily high risk pricing by participants.

- The development and provision of new depots and offices. Participants were requested to provide indicative costs of the development and provision of new, offices (potentially involving co-location with the Council's staff) and depots and to indicate potential funding options and how the costs would be recovered over the life of the Contract.

Current Contractual Position

6. Contract mobilisation took place over 6 weeks up to 1st April 2010, for a contract of this complexity and size this was a very short timescale. Atkins successfully transferred staff and delivered service from day 1 but many of the systems and processes that should underpin the contract were not in place.
7. The delivery of safety defects, such as potholes, has been difficult due to around 100% increase in the number of defects reported due to two successive harsh winters. Disputes with Atkins around the pricing of defects led to a contractual dispute that went to mediation in April 2012.
8. We subscribe to the annual National Highways and Transport survey carried out by MORI as a means to gauge how well the public believe we are performing across the full range of services we deliver. In common with the majority of authorities in the survey there was a drop in performance on the condition of roads and traffic congestion. The performance of Atkins on highway maintenance improved over last year and in the management of road works the county were ranked first amongst the county councils taking part. Full results are available on www.nhtsurvey.org.
9. Historically the council as client had not been good at developing forward programmes and had not supported its delivery partners in the way it would like, leading to under spends and a 'feast or famine' approach to work. Strong programme management and a Programme Delivery Group have enabled programmes for 2 – 5 years ahead to be developed. The next step is to use these programmes and the annual programme to better coordinate and manage resources to drive out cost inefficiency. This has been a real challenge with work originating from new developments where short often unpredictable timescales make forward programming difficult.
10. At the time of tender the expected annual turnover through the contract was expected to be around £30M split about 50/50 between capital and revenue. Due to budget cuts turnover has been around £25M over the first three years of the contract. Within the budgets there has been an increased emphasis on structural maintenance and less work on improvement schemes. Structural maintenance over the last few years has attracted additional money from both central government and the council. This has been a challenge to programme effectively given that the money is time linked with short delivery times.
11. The council's medium term financial plan is looking for on-going savings and approximately £3m of revenue savings were made on award of the contract and by the end of the current MTFP highway maintenance revenue budgets will have been reduced by approximately 40%. We are working with Skanska to give some tangible cash savings across the core services for 2014/15.

12. We consider that to improve the condition of local roads we need to have a better understanding of the asset. This will include a comprehensive knowledge of what it is, where it is and what condition it is in all recorded on a system. This information would be continually updated and utilised to inform future maintenance programmes. A key feature of the contract was the requirement for Atkins in the first year to verify the existing asset management data and collect information on missing assets. Together with the condition information collected as work took place this would give us the ability to target resources better. Skanska are currently completing a full sweep of the highway network to verify and confirm all asset information, including condition details. This will be completed ahead of the next financial year.
13. The presence of tar in many of the county's roads has led us to look at both in-situ re-cycling and ex-situ recycling to avoid costly and environmentally damaging landfill. This was a partnership led approach, building on the industry best practice being delivered elsewhere. The council has committed to the establishment of a recycling facility to treat and recycle over 2000 tonnes of tar coated material each year.
14. The contract has a facility to borrow up to £5 million interest free in order to improve depots. This proposed investment into the depots will address some of the environmental issues of storing salt in the open through the construction of new salt barns. Looking ahead, this will be developed with Skanska as they have a 'Green Initiative' which could add impetus to bringing these developments forward. Skanska were voted the UK's Greenest Company in 2013.
15. It should be noted that a strong operational performance has been evident during the first 3 years of the contract, with particular regard to Defect Repairs, Health and Safety and Operational OPI's. The outstanding cross-partnership working during the floods late 2012 and early 2013 were also noteworthy in the high level of response and performance delivered.

Highway Maintenance Efficiency Programme – Peer Review

16. The Peer Review team visited Oxfordshire between 24 – 26 July and carried out a peer challenge process based around the 4 key themes set by OCC as the scope of the review. The majority of the Peer Review team returned to Oxford on 25 September to brief the Senior Officers and Members they interviewed during the peer challenge process to give the findings of their Review and to work with a nominated group of managers within the Highway service on the Action Planning flowing from their findings.
17. Headline messages from the peer review were:
 - OCC are in a strong position in terms of leadership support for the change journey embarked upon and highway maintenance is an important issue for everyone.
 - OCC are going through a really difficult period in terms of reorganisation, contract history and contract change but the transfer to Skanska is an opportunity to address the integration issues Oxfordshire

are experiencing and to decide on the best way forward for the organisation.

- There is a lot of work in terms of culture, behavioural and process change to be done – use the organisational and political support available to assist with change required.
- There is a unique opportunity to raise the profile of the highway maintenance service within the Authority to meet the Council's objectives.

18. Following on from the workshop a working group has been set up to consider improvements around the key themes of structure, culture and processes. An action plan is being developed around these themes and will be tested with a member of the peer review team in February.

Service Delivery and Performance

19. Performance within the contract is managed using Key Performance Indicators (KPI's). Two sets of indicators are defined in the contract:

- Operational Performance Indicators (OPI's) measuring the performance of Atkins in delivering aspects of the integrated service they are responsible for. OPI's are linked to the payment of profit.
- Strategic Performance Indicators (SPI's) measure the joint performance of Atkins and OCC in delivering against the strategic objectives set for the contract. SPI's are linked to contract extensions.

OPI reporting and details of the SPI are contained in Annex 1.

20. The annual performance of the OPI's in the first three years of the contract has been 64.65%, 80.13% and 72.53%. Key areas for improvement are in programme management and noticing of work. The current OPI performance is attached at Annex 2.

21. It has been difficult to agree SPI's in the first three years of the contract, especially during a difficult period in terms of commercial issues together with the mediation on defects. Operational performance was delivered to the expected level, however due to the issues above no extensions were granted for the first two years of the contract. The Strategic Partnering Board has decided to defer the decision on further extensions until after year 5 allowing a longer term view on performance.

Governance arrangements

22. The contract includes two governance groups to ensure that the contract is delivering planned outcomes and that any contractual issues are raised and resolved. Operational matters are dealt with by the Highways Contract Operation Board (HCOB) that meets monthly and is chaired by the Deputy Director, Commercial in Environment and Economy. To ensure there is a strategic overview of the contract there is a Strategic Partnering Board (SPB) that meets quarterly. This board is chaired by the Director of Environment & Economy and includes the Deputy Leader of the Council, Cabinet Member for Environment and senior directors from Skanska. The SPB deals with contract issues escalated from the HCOB as well as setting a strategic direction considering future efficiencies and improvements.

Assignment of Contract to Skanska in October 2013

23. Atkins notified the Council in September 2012 of its intention to restructure its business by seeking a purchaser of its local highways contracts. On 28th February, Atkins issued a briefing to the City and its staff about its proposal to sell the operational services part of the UK Highways & Transport business to Skanska. The sale was concluded over the summer and the transfer took place on 4th October 2013. Further details of the transfer can be found in the Cabinet Report of 16th July 2013.
24. Skanska is a major blue chip organisation with a predominantly contracting background and experience of the highway maintenance sector (with the Highways Agency). Although Skanska had no local authority highway contracts prior to the transfer this transaction is seen as a potential benefit to the council. Atkins has struggled to meet the contract standard and a provider with a contracting background (rather than consultancy) may bring the operational drive that is required.
25. With Atkins changing their business model their focus will not be on the highways contracting sector of the business and will lack investment and direction. Therefore the move to Skanska should ensure the delivery of the services is with a provider that is focussed on these business activities.
26. Prior to the transfer legal advice was sought on the best mechanism for transferring the contract from Atkins to Skanska. Procurement legislation prevents the full transfer of the contract from Atkins and the chosen mechanism to effect the change was to assign the benefit of the contract to Skanska with the actual contract remaining with Atkins. From the date of transfer all day to day dealings on the contract will be with Skanska, however Atkins remain ultimately responsible for the delivery of the contract.
27. Prior to transfer a due diligence exercise was undertaken to ensure that Skanska fully understood the requirements of the contract and were able to deliver those requirements.

Financial Implications

28. There are no specific financial implications in this report

Risk Implications

29. Risk registers are maintained at both Task Order level and Contract level.

RECOMMENDATION

30. **The Performance Scrutiny Committee notes the performance of Atkins in delivering the first three years of the highways contract and notes the assignment of the contract to Skanska will give added impetus to making improvements moving forward.**

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Background papers: Annex 1: OPI's and SPI's
 Annex 2: Current OPI Performance

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