

AUDIT & GOVERNANCE COMMITTEE - 8 November 2017

Performance of Highways Partnership Contract

Report by Director of Infrastructure Delivery

Introduction

1. The Council entered into a partnering contract with Skanska UK Ltd to delivery Highway Design and Works functions in April 2010. The contract covers routine highway maintenance, highway design and construction, transport planning, vehicular maintenance and other ad-hoc services.
2. This paper reports current performance of the contractor and the partnership arrangement and updates the Committee on extensions awarded on the contract.

Background

3. The contract was tendered on a 10 year basis (an initial end date of 2020) with the option to extend for a further 10 years (possible extension until 2030). The mechanism for extension is based on the ongoing effectiveness of the partnering arrangements. This takes the form of an annual assessment throughout the first 10 years of the contract term. The assessments are based on agreed Strategic Performance Indicators (SPIs) that reflect the priorities of the Council.
4. The purpose of the SPIs is to provide evidence of how the partnership is performing and to demonstrate any added value that comes from a long-term, collaborative relationship. Good performance against SPIs informs the judgement on whether extensions to the contract are mutually beneficial.
5. The SPI's are based on the original outcome objectives of the contract which are
 - Achieving High Standards of Customer Satisfaction
 - Deliver the Transport Programme Reliably and Cost Effectively
 - Achieve Sustainable and Demonstrable Efficiency Savings
 - Improve the Condition of Local Roads and Pavements
 - Minimise the Environmental Impact of Our Activities
 - Develop a "one team" approach to Service Delivery.
6. The SPIs have a measurable component, but because they relate to success and integration of the partnership they are also regularly reviewed to ensure that the contract objectives continue to align with the shared values of the partners over the life of the contract. The Corporate objective is described in annex 1.

7. The Council had previously awarded 2 extensions to the contract.
8. A variation to the contract has meant that these have been released now rather than at the end of the contract to allow Skanska to maintain a 5-year forward visibility to the end of the contract, to enable investment opportunities.
9. A review of the extensions for Year 6 and 7 (April 2015 to March 2017) was undertaken during the summer.
10. Operational Performance Indicators (OPIs) are intended to monitor contract compliance and quality and result in a profit payment of up to 3.5% of turnover where contract requirements have not been met.
11. In 2016/17 Skanska earned a profit payment of 2.71% from the possible 3.5%, resulting in a payment of approximately £700,000.

Performance

Strategic Performance Indicators

12. The table in Annex 1, summarises the performance of the contract over the 2 year period. There are a number of areas where performance and partnership working has been very good, this includes the use of the local and regional supply chain, development of apprentices both within Skanska and OCC, improving the recycling rate of materials for projects, bidding for funds, programming of works and minimising disruption across the network by joining up works. However, there are still some areas where improvements could be made.
13. Most significantly the introduction of SkanWorks (Skanska's accounting and works management system) 18 months ago and ongoing issues that remain around accuracy and visibility of costs means that the SPI relating to improving the effectiveness of systems and data was a major risk to the partnership. It was agreed at the Strategic Partnership Board meeting in November 2016 that any issues relating to SkanWorks would result in extensions not being granted as this was deemed critical to both Skanska and OCCs financial management of the contract.
14. Overall the partnership is working well and there have been several improvements in collaborative working over the last couple of years. Due to the improvements in collaboration and the generally good health of the contract and the other SPI's, it was agreed that 1 extension was granted and the other withheld because of the issues around SkanWorks stated above.

Year 1 2010/11	Year 2 2011/12	Year 3 2012/13	Year 4 2013/14	Year 5 2014/15	Year 6 2015/16	Year 7 2016/17	Year 8 2017/18
Extension Not Awarded	Extension Not Awarded	Extension Not Awarded	Extension Awarded	Extension Awarded	Extension Awarded	Extension Not Awarded	TBC May 2018

15. The release of a further extension takes the contract up until March 2023. In order to maintain the 5-year visibility of the contract this extension will be released immediately.
16. The Year 8 SPIs have been agreed and will be reviewed in May 2018, these are generally progressing well. Because of the issues around SkanWorks, this has been separated out, resulting in there now being a SPI-9a and SPI-9b. This will enable the partnership to see how the contract is performing independently of any ongoing SkanWorks issues.
17. It is proposed that the OPIs are reviewed prior to the start of Year 9 (April 2018) and any issues that remain with SkanWorks are penalised through this mechanism thereby hitting Skanska's profit rather than impacting on the overall improvements seen across the partnership.

Operational Performance Indicators

18. The Operational Performance Indicators are split into 4 sections – Operational Performance; Network, programme and systems; HSEQ; Finance. Below is a summary table of current performance and end of year predicted performance.

Area	Weighting	Current performance	Projected performance
Operational Performance	40%	33%	36%
Network, programme & systems	30%	14%	20%
HSEQ	20%	18%	18%
Finance	10%	5%	6%

19. In general performance has been good, however areas of concern are around compliance with formal works notifications, cost and time predictability, issuing of customer satisfaction cards. There remains concern for the financial OPI's concerning the visibility and accuracy of costs on SkanWorks.
20. Were Skanska to continue with the current trend of performance they would achieve a performance outturn of 70%, however it is expected that this will increase (following targeted review and understanding of the issues on the current low performing areas) to around 80% which would equate to 2.8% of the available 3.5% profit fee.

Innovation

21. The Council and Skanska have collaborated on several projects to deliver greater innovation and efficiency on the contract; these include.
22. Skanska Introduced the Dragon Patcher to the contract in 2016, which has taken the unit cost of a pothole repair from £120 to £20. This has enabled the service to repair pot holes that would not otherwise have met intervention

criteria and as such would previously not have been repaired. This increases both the safety of road users and helps reduce the deterioration of the carriageway. The Dragon Patcher has recently been shortlisted by the Association of Public Service Excellence (APSE) for an Innovation Award.

23. Skanska introduced the MultiHog in 2017, which enables several activities to be undertaken by the same machine, including hedgerow flailing, grass cutting and grip (channels through verges which allow water to run into highway ditches) cutting. This has meant greater efficiency resulting in more activity being able to be undertaken on the highway network.
24. The Council and Skanska undertook a joint and comprehensive review of highway services to identify lean ways of working. The approach taken was more ambitious than undertaken previously by the sector, and as such was showcased as case study at the 2016 National Lean in Construction Conference.
25. Skanska introduced a new gully cleaning system in 2016. Kaarbontech delivers live information on gully assets; from programmes of work, maintenance histories, live updates on fill levels and videos of survey assets which detail defects and where work is required. This allows the council to better understand where risks to flooding are likely to be and to programme gully cleansing more proactively. It is proposed to use the system in a similar way for salt bins this winter.
26. The contract has been able to deliver demonstrable efficiencies year on year, and in 2016, APSE recognised Oxfordshire County Council as one of the 6 best performers in the country with regards to efficiency in Highway Maintenance.

RECOMMENDATION

27. **The Committee is RECOMMENDED to**
 - a) **note the contents of the report; and**
 - b) **advise of areas of operational concern to help inform performance measures for 2018/19.**

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Background papers:

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November 2017

Annex 1: Performance against Strategic Performance Indicators

No	Strategic objective Partnership objective	Measure	Evidence	RAG Status
SPI1	Championing a World Class Economy Network condition	Achieving the target condition of A and B class roads in each year. Agreed target of 28% from Year 7	Baseline developed on survey information from WDM reflecting the road condition in Year 6 – 28% of A and B roads were red and amber 2016/17 results (from the survey undertaken in April 2017) show red and amber status for A and B roads at 32.66%	Baseline developed, target agreed but not met 28%. The level of deterioration however is in keeping with the national trend.
SPI2	Championing a World Class Economy Programme predictability	Programme precision against the baseline programme and subsequent agreed changes. Measured in 'days' variance.	ASTA programme populated with scheme development and delivery data. Gateways and milestones identified within the programme to measure performance against programme dates and updated with changes. Change control mechanisms established to capture and agree programme changes where appropriate. OPI's now capturing performance of accuracy of design and construction time predictability.	Target achieved
SPI3	Supporting Healthy and Thriving Communities Optimise spend through local / regional supply chain	50% of base budget to be delivered through local/regional supply chain	During 2015/16 - 58.2% (£11.1m) local and regional sub-contractors and 41.8% (nearly £8m) with national sub-contractors. During 2016/17 the split was 59.2% (£11.8m) local and 40.8% (£8.1m) national spend. National contractors have been used where they offer a specialist product and therefore the best value for money for the people of Oxfordshire.	Target achieved
SPI4	Supporting Healthy and Thriving Communities Supporting apprenticeships	Support to 6 – 8 apprenticeships across the partnership (excluding supply chain)	Skanska brought in 5 new apprentices through 2015/2016 and 4 in 2016/17 operating from the two main depots. OCC recruited into 6 posts starting in August 2016. In addition Skanska recruit through social schemes including return to work and offender rehabilitation	Target achieved
SPI5	Enhancing the Environment	90% waste recycled	Over 96% waste recycled during 15/16 and 16/17	Target achieved

	Waste minimisation		<p>A training programme has been developed to deliver waste awareness and duty of care training to all relevant personnel</p> <p>Recycling facility at Drayton established. Licence has been submitted to the EA and draft received.</p> <p>Duty of care audits of main waste carriers and disposal sites are carried out throughout the year to monitor compliance</p>	
SPI6	<p>Enhancing the Environment</p> <p>Link in with the Skanska 'Journey to Deep Green' initiative</p>	<p>Achieve an improvement in the level assessed through the Skanska green methodology</p>	<p>Over 90% of staff attended various deep green workshops to inform them of the 'Journey to Deep Green'.</p> <p>Environmental improvements to depots:</p> <ul style="list-style-type: none"> • Removal of underground fuel tank at Drayton • Salt run-off resolved at Chipping Norton • Plans in hand to cover salt at Drayton and Deddington <p>Fleet management initiatives to reduce fuel and carbon impacts from the vehicle fleet and company vehicles</p> <p>Further work needed to communicate good news</p>	<p>Journey to deep green not fully embedded in all partnership working – OCC not fully aware of initiative or their role within it. Skanska is developing the deep green philosophy to generate a simpler version based on CO2 which will be more relevant to civil engineering and maintenance. Further work needed in 17/18.</p>
SPI7	<p>Enhancing the Environment</p> <p>Minimise network disruption</p>	<p>Mitigate network disruption</p> <p>Assess the net cost of disruption from TTROs</p>	<p>Cost of disruption assessed and improved from 15/16 to 16/17 – mainly due to reduced closures on A roads.</p> <p>Introduction of ASTA programming system has facilitated the programming of all annual plan works, both capital and revenue. This allows TM clash analysis as well as highlighting where schemes can be combined and share TM where possible.</p> <p>Working on a programme to share TM for grass cutting and gully emptying programmes, aligning the activities and reviewing method</p>	<p>Target achieved</p>
SPI8	<p>Delivering Efficient Public Services</p> <p>Successful performance in DfT incentive funding</p>	<p>Achieve incentive fund level 2 for 2015/16 with the intention of level 3 beyond</p>	<p>Incentive Fund Band 2 achieved and confirmed by DfT for both 2015/16 and 2016/17</p> <p>Action plan currently being developed to move to band 3 for future years, coordinating with other Authorities through the Skanska Contracts Working Group, MHA and SE HMEP working group.</p>	<p>Target achieved</p>

<p>SPI9</p>	<p>Delivering Efficient Public Services Improve the effectiveness of systems/ data</p>	<p>Implement a single source of data (systems) and develop a combined approach to data capture and management by end year 7</p>	<p>ASTA - implemented and running as business as usual. Kaarbontech gully system in use and working well Orbit - implemented Highways Records Digitisation – on schedule to be completed in Year 8 EXOR replacement – procurement exercise with Wiltshire on going during 16/17 and 17/18</p> <p>Following SPB (9th November 2016), it was agreed that future extensions would be dependent on complete and successful implementation of SkanWorks as determined by OCCs requirements.</p> <p>Major issues remain with the implementation of SkanWorks. After OCCs internal audit findings, which showed a number of fundamental issues with the system, a programme for resolving these was submitted. It should be noted that all dates stated in the programme have lapsed and the system is still not delivering on contract requirements.</p>	<p>Not met — although there has been successful implementation of some systems, SkanWorks has had and continues to have a number of significant issues. It is still not fully implemented or working as it should meaning that OCC and Skanska cannot see fully the costs associated with works and costs cannot be fully audited.</p>
<p>SPI10</p>	<p>Providing Leadership and Enabling Partnership Working Improving the efficiency of operations</p>	<p>Improving the ratio of productive and support cost by 20%</p>	<p>Work in progress, bottom up analysis has started alongside the LEAN review. Review of Management fee and supervision costs undertaken. Although the supervision ratio is acceptable, costs have not reduced as anticipated, although there is now clear visibility on the split of costs between supervision and management.</p>	<p>Not all the savings were realised during Years 6 & 7. The rebase exercise meant that although savings made these have been hidden. Implementation to the new area structure will achieve savings – in addition Skanska are reviewing their supervision requirements before recruiting into posts.</p>
<p>SPI11</p>	<p>Providing Leadership and Enabling Partnership Working Happy and engaged</p>	<p>Cultural survey to be undertaken in each contract year and improvement shown</p>	<p>Survey undertaken in May 2016. Good response and overall improvement on 2015. Action plan developed and implemented in parallel with OCC and</p>	<p>Target achieved</p>

	partnership staff		Skanska staff survey outputs	
SPI12	Providing Leadership and Enabling Partnership Working Raising the profile of the Partnership	Increased number of positive partnership events each year. These would include positive news stories, awards submissions and leading in sector events.	Positive press coverage stories include Frideswide Square, Dragon Patcher and Cameras on Stop/Go boards. Successful completion, launch event and award submission for Frideswide Square Launch events such as the Dragon Patcher have generated media and member interest.	Target achieved

OPI performance comparison

