

## **Divisions Affected - All**

**CABINET - 20th APRIL 2021**

### **HIGHWAY MAINTENANCE CONTRACT EXTENSION**

**Report by Corporate Director for Environment & Place and  
Corporate Director , Commercial Development, Assets and  
Investment**

#### **RECOMMENDATION**

1. **The Cabinet is RECOMMENDED to**
  - (a) Support an extension to the highway maintenance contract by two years to the end of March 2025.**
  - (b) Delegate authority for the completion of the extension and associated Framework Alliance Contract (FAC) to the Corporate Director for Environment & Place in consultation with the Corporate Director of Commercial Development, Assets and Investment, and the s151 Officer.**

#### **Executive Summary**

2. The County Council needs to make a decision on whether to grant a two-year extension to its highways contract. This report sets out the options that are available to the Council and recommends an extension is granted, subject to both parties committing to a programme of service improvement, cost reduction and social value enhancement.
3. That due to the continuance of the basic structure of the existing contract and an enhancement of the savings in the new contract, that it is appropriate to delegate the completion of the extension and associated contract to the key Council Officers.

#### **Background**

4. Skanska is currently contracted to deliver highway maintenance activity; this is expected to transfer to M-Group Services Ltd as part of a divestment by Skanska of its highway maintenance services on 31<sup>st</sup> April 2021. All necessary due

diligence and assessment has been undertaken and confirmed as acceptable. Novation terms have also been agreed.

5. The original term maintenance contract was awarded to Atkins on 13 Jul 2010, which was subsequently acquired by Skanska on 4 October 2013. The contract was for 10 years from 1 April 2010, with up to a further 10 years' worth of potential extension linked to performance. Due to extensions either awarded or revoked, there is currently only a further 2 years of extension available. The contract is currently due to end on 31st March 2023. If this last available extension was awarded, it would mean the contract would end 31 March 2025.
6. As well as standard maintenance activity, the term maintenance contract is also being used to deliver new infrastructure below the OJEU works limit.

### **Current Performance & Value for Money**

7. Skanska's performance is measured through a suite of 27 operational performance indicators. These are monitored on a monthly basis and impacts on the ability to retain the full profit fee of the contract. The running average of overall performance for this year to date is 88%. Key deliverables that will form part of the Annual Report for 2020/21 is shown in Annex 1, including a summary of the operational indicators on page 7.
8. As part of pricing works, Skanska undertake "mini competition" exercises to ensure they have obtained a true market value tender for the works. We also use knowledge of other authorities' costs to ensure it is comparable to other regional costs.
9. Measuring an authority's efficiency of spend is a difficult metric to benchmark due to a vast variety of factors, including; contractual, condition, traffic loadings, wages etc. The most reliable methodology developed to date, with the greatest number of participating authorities (92) is the National Highways & Transport (NHT) Network's "Normalised Cost" Methodology.
10. Normalised Costs are derived from the analysis by adjusting an authority's actual cost (£/Km) to reflect the characteristics of an average authority. An authority's resultant normalised cost can be compared directly with the normalised cost of any other authority in the Network on a similar basis to traditional unit cost comparisons. An authority's normalised cost is derived by dividing the authority's actual cost (£/km) by each of the authority's cost adjustments in turn; size, traffic volume, road condition, wages and public satisfaction.
11. Oxfordshire's 2019-20 Normalised cost (latest available figures) are detailed in the table below:

<b>Oxfordshire</b>	<b>Lowest Cost</b>	<b>Average Cost</b>	<b>Highest Cost</b>
£3,854	£3,534	£4,018	£7,642

This places Oxfordshire comfortably above average, when benchmarked alongside other authorities. Oxfordshire has consistently performed well in this area since the measure was introduced in 2013/14.



## Rationale for recommending an extension

12. Skanska are currently achieving their performance targets and provide good value. However, we believe more can be achieved by working together and doing things differently to deliver cost reduction and improvements in highway service delivery if we were to extend.
13. The main benefits we have identified include:
  - a) Greater programme certainty and collaborative works planning
  - b) Different methods of construction and materials
  - c) Refinements to process and ways of working
  - d) Carbon consumption reductions
  - e) Skills and Training enhancements
14. These opportunities to achieve improved best value will be formalised and enforceable through a Framework Alliance Contract (FAC). This agreement is being drafted by an external legal advisor and will be finalised before an extension is agreed and would cover the last three years of the contract if extended.
15. Skanska's highway maintenance business is currently in the process of being sold. The proposed new buyer is M-Group Services who are looking to create a foothold into this market sector through the purchase of the Skanska division that are currently delivering this contract and highways services in the UK. As such, any extension agreement will be with M-Group Services rather than Skanska. It is not expected that this will have a bearing on an extension decision but clearly needs to be known before a firm commitment to extend is made.
16. There are a high number of other local authorities who are likely to be going out to market for provision of highway services in 2023, as well as a number of larger highway construction projects being tendered within this timeframe. The

market is therefore likely to be saturated and will not result in Oxfordshire achieving the best possible contractor/s.

### **Procurement considerations**

17. We have explored the options available to us should the decision not to extend be made. In Summary the position is:
  - a) Procure a brand-new Highways contract  
This is possible to achieve providing the contract procured is standard or similar to our current arrangements. Timeframes would be tight if we are seeking to adopt a different approach / contract to how we currently deliver the highway maintenance service.
  - b) Use of different existing frameworks available to the council  
This would be possible in the short-term as a stop-gap if required but not sustainable or attractive longer-term. It is likely to be relatively expensive and resource intensive.
  - c) Working with Neighbouring Authorities to use their Highways Term Maintenance contracts  
We have explored if we could use neighbour authority contracts but to date have not found any that we could access from April 2023.

### **Re-procurement of a new Contract**

18. To help explore options for what a new contract could look like (whether it be in 2023 or 2025) we have commissioned Proving Services from Cranfield University to support us. They are also working with other local authorities who have contract decisions to make over the next few years.
19. Proving Services have developed a methodology to help authorities assess the relative merits and deliverability of a broad range of potential service delivery options. To complement this work, Proving have also undertaken an extensive consultation with the highways sector provider market to gain a comprehensive understanding of the market's views on the future of the sector and the types of contract and relationships providers wish to see going forward.
20. A range of different delivery models are being assessed against the following strategic deliverables.
  - (a) Community engagement and empowerment enabling local decision making and influence on our programmes of work and local design.
  - (b) Strive to deliver Right First Time, delivering best value and high quality (technical and perception) workmanship.
  - (c) Drive Innovation (methods, equipment and materials) to support efficiency, improved life, and carbon/climate agenda.
  - (d) Greater emphasis and consideration of walking, cycling and bus within everyday prioritisation / decision making to improve healthy living and sustainable travel.

- (e) A safe, serviceable and sustainable network that is fit for purpose for all users under all conditions and supports the development of the local economy.
  - (f) Sustain a financially resilient service that delivers best value with the resources available.
  - (g) Develop and sustain collaborative partnerships that deliver the objectives of all partners.
  - (h) Attract, develop, empower and retain the best people capable of driving a dynamic and agile service.
21. The different delivery model options being explored cover a broad range and cover considerations such as; a similar arrangement we have now, a greater level of in-house ownership and possibly delivery, consideration of different partnership models.

## Corporate Policies and Priorities

22. Linking the extension with an enhanced partnership through the Highways Alliance Contract enables a greater ability to help delivery aspects of the Corporate Plan priorities, in particular improvement to place and the local environment.

## Financial Implications

23. The expected value of works through the term maintenance contract for remaining years is shown below. The figures are estimates based on the current approved capital forward programme and expected future revenue funding (including the proposed savings).

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
<b>Maintenance (Capital)</b>	£27m	£30m	£13m
<b>Maintenance (Revenue)</b>	£10m	£10m	£10m

24. It is expected that the benefits achieved as part of the Framework Alliance Contract will realise some additional financial savings to the council, it is anticipated this will be a minimum of £250k pa over the 3-year period of the FAC. This is made up from expected savings across the different FAC work strands mentioned, with majority of this is expected to be capital. This will be finalised as part of detailed negotiation on the FAC.

Comments checked by:

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## Legal Implications

25. There are minimal legal implications to this extension in that we will be extending the existing contract and its terms for the remaining two-year period. However, the new FAC contract will sit as an umbrella legal commitment to encompass the savings and other benefits identified earlier and tie in any new procedures that are being developed to make the new changes work.

Comments checked by:

Sarah Hayes, Solicitor, [Sarah.Hayes@Oxfordshire.gov.uk](mailto:Sarah.Hayes@Oxfordshire.gov.uk)

## **Staff Implications**

26. There are no staffing implications as this is purely an extension of the existing contract.

## **Equality & Inclusion Implications**

27. None. The associated policies which impact on service delivery will remain the same.

## **Sustainability Implications**

28. There are a number of sustainability benefits that we are seeking to tie into the new extension these are:
- (a) A commitment to increase the use of hybrid and eventually electric vehicles for future development of its fleet
  - (b) Using Oxfordshire to trial electric plant and tools
  - (c) An increase in the recycling of and waste tarmac and the use of recycled and low carbon products at Drayton Depot.

## **Risk Management**

29. It is considered that the lower risk option is to extend the existing contract as it will provide a low-risk way of testing new ways of working and delivery models whilst we shape what a new highways delivery mode/contract may be structured.
30. The novation agreement that is currently being negotiated for the Sale of Skanska is aiming at ensuring that the liability for normal defects, latent defects and third-party claims will continue with either M-Group or the existing suppliers so there is limited risk exposure for the sale. By means of the extension this liability will continue with the Contractor in the same way for the extension period.

## Consultations

31. No consultation has taken place or is planned. It is not considered necessary for this decision.

BILL COTTON  
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– Environment & Place

STEVE JORDEN  
Corporate Director  
Commercial Development,  
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Annexes:

(1) 2020/21 Highways Contract Annual Report Summary

Background papers:

Nil

Other Documents:

Nil

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31<sup>st</sup> March 2021