

Recommendation to permit the issue of a package of six projects, each in excess of £500,000 to Skanska through the Peterborough Highways Services contract 2013-2023.
Councillor Peter Hiller, Cabinet Member for Growth, Planning, Housing and Economic Development
March 2016
Deadline date: N/A

Cabinet portfolio holder: Responsible Director:	Councillor Peter Hiller, Cabinet Member for Growth, Planning, Housing and Economic Development Simon Machen, Director Growth and Regeneration
Is this a Key Decision?	Yes If yes has it been included on the Forward Plan : Yes Unique Key decision Reference from Forward Plan : KEY/11JAN16/02
Is this decision eligible for call-in?	Yes
Does this Public report have any annex that contains exempt information?	No
Is this a project and if so has it been registered on Verto?	This notice relates to a decision required for a number of projects. Junction 20: PR000670 Bourges Boulevard Phase 2 (packages within): PR002109 LED street lighting upgrades: approved at full council on the 9 March 2016 to be added to verto. Wheel Yard Public Realm Improvements: PR002197 A1260 Nene Parkway: PR002167 A1179 Longthorpe Parkway: PR002203

R E C O M M E N D A T I O N S

The Cabinet Member is recommended to:

- 1) Authorise the issue of the following work packages to Skanska Construction UK Limited under the Council's existing Peterborough Highway Services Contract;
 - i. Junction 20 (Paston Parkway/A47) capacity improvements, work package value to be within £5m scheme budget
 - ii. Bourges Boulevard Phase 2, work package value to be within scheme budget of £10.5m
 - iii. Wheel Yard public realm improvements, work package value to be within scheme budget of £690k
 - iv. LED street lighting upgrades, work package value to be within scheme budget of £16.681m
 - v. A1260 Nene Parkway, work package value to be within scheme budget of £1.5m
 - vi. A1179 Longthorpe Parkway, work package value to be within scheme budget of £1.5m

- 2) Authorise the Director of Growth and Regeneration to vary the work order value when required subject to; (i) available budget being in place; (ii) the total sum of each variation not exceeding £100,000, and (iii) the combined value of any authorised variation(s) do not exceed the total sum of £500,000. Any variations are to be made in prior consultation with internal audit, finance and legal services.

1. SUMMARY OF MAIN ISSUES

- 1.1 This report seeks approval to issue a package of works comprising of six major projects as detailed in Appendix A through the existing Peterborough Highways Contract 2013-2023.

2. PURPOSE OF THIS REPORT

- 2.1 This report is for Councillor Peter Hiller, Cabinet Member for Growth, Planning, Housing and Development to consider exercising delegated authority under paragraph 3.4.8(a) of Part 3 of the constitution in accordance with the terms of their portfolio at paragraph (b)

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	
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4. DETAILS OF DECISION REQUIRED

- 4.1 Peterborough City Council have six major transportation schemes in excess of £500,000 identified for delivery with construction commencing in the 2015/2016 and 2016/2017 financial years. All works are within the scope of the Peterborough Highway Services contract 2013 - 23.
- 4.2 The projects identified are:

- Junction 20, A47 and Paston Parkway capacity improvements
- Bourges Boulevard public realm improvements (Phase II)
- LED street lighting upgrades
- Midgate public realm improvements
- A1179, Longthorpe Parkway improvements
- A1260, Nene parkway improvements

Additional details for each scheme can be found in Appendix A.

4.3 Highway services delivered by PCC acting as Local Highway Authority have been subject to annual budget reductions and have delivered significant savings internally through service efficiencies, streamlined staffing and income generation, as well as robustly challenging existing suppliers. In 2013 the Council recognised that in order to take these achievements even further, it needed to have an external partner to work with to consolidate existing service provision both external and in-house to:

- deliver synergies across a wide range of service provision;
- provide inward investment;
- guarantee further savings and value for money services;
- serve as a catalyst for change; and
- bring wider benefits to the city (such as local job creation).

4.4 The Council advertised the Peterborough Highway Services Contract in the Official Journal of the European Union in line with the Public Contracts Regulations 2006 for interest from bidders wishing to be considered as the Council's potential Partner for Peterborough Highway Services. An envisaged contract period for the partnership was stated as being ten years with the ability to extend it for two further periods of five years each.

4.5 Due to the complex range of services to be delivered by Peterborough Highway Services, the Council chose to use the Competitive Dialogue Procedure under the regulations so the Council could develop with the bidders the service scope, innovative solutions and growth potential in terms of improved service delivery and pricing. Strong emphasis was placed on the Council's desire to work in a collaborative and partnering style and that it wished to see bids that combined all the necessary qualities that the Council was seeking to achieve from the procurement process. The Competitive Dialogue procedure consisted of four stages, as follows:

- Stage 1: Prequalification
- Stage 2: Outline Proposals
- Stage 3: Detailed Proposals
- Stage 4: Final Tender

4.6 Following a rigorous yearlong competitive dialogue process and thorough evaluation of tender documents, Skanska were identified as the Council's preferred supplier culminating in 2013 with the establishment of Peterborough Highway Services and award of contract. This process was ratified by a Cabinet Member's Decision Notice (AUG13/CMDN/068).

4.7 The CMDN established the principle of evolution of the partnership and identified the potential for additional services to come within the scope of the Contract at a later date. Clause Z13.2 of the Peterborough Highway Services Contract 2013-2023 provides the legal basis for extending the scope of works delivered by Skanska.

Project delivery

- 4.8 The design of the six projects is being carried out by Skanska through the Professional Services element of the Peterborough Highway Services Contract 2013-2023.
- 4.9 It is recommended that the current Peterborough Highway Services Contract 2013-2023 should also be utilised as the delivery mechanism for the physical works. The Conditions of Contract are the core clauses of the NEC3 Engineering and Construction Contract June 2005 (with amendments June 2006 and April 2013). The works will be priced by the Contractor using Option C: Target contract with activity schedule.
- 4.10 In this option the Contractor tenders a target price using an activity schedule in which each activity is priced as a lump sum plus fee. During the course of the delivery, the target price is adjusted to cater for compensation events that are set out in the contract. Payment is made on the basis of actual costs plus fee. Within Option C, Target Contract, there is an incentive mechanism for the Contractor to minimise costs with both savings and overspends shared between both client and contractor. The sharing of risk in the target cost approach is likely to reduce the occurrence of disputes between both parties.
- 4.11 In the past PCC has used its Professional Services Partner for the design and supervision role for major schemes in excess of £500,000 and procured the delivery element either via a competitive tender on the open market or through an established Framework Agreement such as the Midlands Highway Alliance or the Eastern Highways Alliance. Whilst these procurement routes have proven successful the tender process can lead to delays in awarding contracts which presents a significant financial risk to projects which are to be delivered within the constraints of grant funding.
- 4.12 When procuring works via the open market, there are significant costs associated with the preparation of open market tenders for each project in terms of staff time and resource, these effectively cancel out any potential savings that could be generated by procuring works in this way, and the potential benefits of design and build efficiencies can be lost when the two key components of a scheme are completed by different contractors.
- 4.13 In recent years PCC has procured its major public realm and transportation projects through the Midlands Highway Alliance (MHA) Framework Agreement. In addition to the annual membership fee a fee is charged for each project using its Medium Schemes Framework Contract (MSF1) on an escalating scale which is calculated against the initial target price. In utilising the existing Term Service Contract with Skanska the Council will avoid the project fee and in doing so will realise an immediate efficiency for each project delivered.
- 4.14 To place this into context, the MHA fee for using the MSF1 Contract on a typical construction project target costed at £1.0m would be £12,000. This fee would not be incurred if delivered by the Peterborough Highway Services contract. It is anticipated, based on the current MHA fee structure, the Council will save in the region of £170k if the works packages detailed in appendix A are delivered via the Peterborough Highways Services Contract 2013-2023. These funds can then be reinvested to achieve greater benefits within the projects.
- 4.15 In addition to the project fee, in April 2014, the MHA launched a new version of its Medium Schemes Framework Contract (MSF2) which replaced the MSF1 Contract. To date, no works have been procured by PCC under the MSF2 Contract. As such, it remains untried and untested as a delivery mechanism for major projects. A number of new contractors have been accepted onto the MSF2 Framework and several of these have no proven track record of delivering major projects for the Council.
- 4.16 Following evaluation of the alternative procurement mechanisms detailed above it is considered that the Peterborough Highway Services contract provides the most suitable delivery mechanism of the six schemes detailed in Appendix A. Utilising the existing Highway Services Contract will mean that the Council will realise the following benefits:

- Reduced procurement costs by using an existing framework contract.
- Improved project management and cost certainty through the utilisation of a target cost style of contract.
- Reduced construction costs through 'Early Contractor Involvement' (ECI) at the design stage to manage and mitigate more effectively any potential build issues with the design.

Representing best value

4.17 When the Term Service Contract was awarded to Skanska it was viewed as having submitted the most economically advantageous tender submission thereby demonstrating best value in the market place. This is something that Peterborough Highway Services has continued to demonstrate via robust contract management tools such as adoption of the Peterborough Highways Performance Manual and the adoption of Key Performance Indicators (KPIs).

4.18 The Peterborough Highway Performance Manual sets out the process for measurement and management of performance in delivering the contract requirements. The Peterborough Highways Performance Hierarchy gives the Partnership a standard approach to capturing performance data in order to achieve:

- Visibility of service provider performance.
- Consistency in the data captured.
- Benchmarking of performance results.
- Capturing continuous improvement.

The service areas for the Highway Services Contract are:

- Operations (responsive Highway Service)
- Commercial and Financial
- Added value
- Customer Service

4.19 Performance is monitored in line with these four weighted 'domains', providing regular visibility of the service leading to better, more informed decision making on where resources and improvement efforts need to be focussed.

4.20 Regular reviews of the Performance Hierarchy are undertaken by the Peterborough Highways Operation Team (PHOT) in order to capture lessons learned and support continuous improvement of the process. The hierarchy is updated on an annual basis with reviews used to refocus the service areas to align with the changing needs of the Council and reflect the associated movement of the Partnership's objectives.

4.21 A series of Key Performance Indicators (KPI's) are used to evaluate performance under the Highway Service Contract. They are collated on a monthly basis and summarised on a dashboard with status shown as either, 'Green', 'Amber' or 'Red' against an agreed target percentage. All the monthly KPI scores will contribute to an annual, overall performance score for the Contract. This will be used to determine whether extensions to the Contract are awarded to Skanska when the current term expires.

4.22 One of the Operational KPI scores used to evaluate the performance of the Contract relates specifically to accurate target cost forecasting (KPI OP13). The information collected to calculate the KPI is the initial target cost, the final target cost figure including agreed compensation events and the final defined or 'actual' costs of the works. This indicator measures the difference between the final target cost and the final defined cost expressed as a percentage. The agreed target for the Highway Service Contract is for ninety-five per cent

of all scheme target costs to come within +/- ten per cent of the final defined costs. The expectation is for Skanska to better understand the concept of cost not price and the factors that influence cost changes to ensure that target costs are being jointly and correctly set.

- 4.23 Service credits will be incurred in the event that performance targets are not met although they can be nullified where the overall annual performance score for the contract exceeds ninety-five per cent. The relationship between the level of failure and the service credit is linear. It is subject to agreement between the Contract service manager and the PHOT prior to the start of each year. The key benefit of this tapered arrangement is that the service provider is rewarded for each percentage improvement to performance whilst ensuring that poor performance is penalised. This incentivises the service provider to invest in the service and deliver continuous improvement for the Partnership.
- 4.24 Given the performance mechanisms detailed above and as a result of Skanska's documented performance since the commencement of the Highway Service Contract in October 2013 it is recommended that they are the contractor selected to deliver the six major projects utilising the Peterborough Highway Services Contract 2013-2023. In addition to proven quality and value for money as demonstrated by the adoption of the Peterborough Highways Performance Manual and KPIs, this route would also deliver:
- An increased turnover rebate from Skanska to PCC.
 - Design and build end-to-end efficiencies.
 - Increased economies of scale.
 - Greater opportunity to retain work in the local area.
 - Security of materials and resources supply.
 - Innovation.
 - Increased efficiencies and revenue benefits for access to additional work at zero bid cost.
- 4.25 The use of an NEC3 Option C Target Cost Contract will demonstrate value for money as the payment mechanism will give PCC full transparency over all costs and the pain/gain mechanism will further encourage Skanska to drive down costs and maximise efficiencies.
- 4.26 In order to improve the delivery of major projects Skanska have proposed the creation of a 'Core Management Team' with the express aim of planning, co-ordinating and implementing PCC major capital projects. This team will also look to pursue additional Third Party Schemes (for other PCC Directorates and Departments) through the Highway Service Contract to generate economies of scale.
- 4.27 The creation of a dedicated team to deliver major projects removes the need for PCC to engage another Professional Service Provider to administer, manage and supervise the contract on its behalf. As an example, the current fee charged by the MHA to use its Professional Services Partnership is one per cent of the total value of the work charged through the framework to the member in question.
- 4.28 In addition to the immediate savings associated with each project Serco, the Council's procurement partner have been in discussions with Skanska in regards to additional efficiency opportunities that can be generated within the Contract. A number of options have been explored and agreed in principle subject to increased contract turnover associated with the delivery of schemes greater than £500,000.

5. CONSULTATION

- 5.1 Thorough consultation was undertaken in order to appoint Skanska Highway and Infrastructure Services as Peterborough's Highways partner, culminating in the signing of a cabinet member's decision notice in August 2013.

Appropriate level consultation will take place with relevant stakeholders for the schemes identified in appendix A. This will take place alongside the delivery contractor to ensure consultation details align with delivery programmes and final design details.

6. ANTICIPATED OUTCOMES

- 6.1 It is anticipated that on consideration of the opportunities identified above that the cabinet member will agree with the recommendation made within this report. In doing so Peterborough City Council will benefit from greater end to end efficiencies when delivering major transport related schemes as well enabling further savings opportunities within the broader Highway Services contract.

7. REASONS FOR RECOMMENDATIONS & ANY RELEVANT BACKGROUND INFORMATION

- 7.1 Increasing pressure has been placed on different service areas to explore alternative mechanisms to deliver works more efficiently. Agreeing the recommendation detailed above will not only deliver individual major schemes more efficiently and effectively but will also enable further efficiencies associated with the increased turnover of an existing Council contract.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 As this is a recommendation to utilise an existing contract to greater capacity it is not believed that there are further options available with the same outcome.

- 8.2 The alternative procurement and delivery options considered were:

(a) **To separately tender for each project:** This approach would incur additional procurement costs in the form of staff time and resource that could otherwise be avoided. The increased lead in time to procure civil engineering schemes will potentially increase the out-turn costs of a given project and decrease the time available to engage the contractor on site to carry out the works. In this instance there would be considerable risk to achieving the required programme for the capital works.

(b) **To utilise another existing Framework Agreement:** Procurement of the six identified major schemes through the Midlands Highway Alliance Framework Agreement has been discussed above. Upon research, there were found to be no other Framework Contracts available that PCC could utilise to deliver civil engineering schemes due to limitations in scope.

9. IMPLICATIONS

- 9.1 The implications of this recommendation to members of the public and stakeholders are minimal as the schemes would still be delivered and achieve the same outcomes. Delivery would however be via an existing contract with a proven performance and delivery track record rather than procuring services of an external contractor and entering into new contracts for the delivery of each project.

- 9.2 Approving the recommendation would also deliver greater value for money for Peterborough City Council via the performance measurement and efficiency mechanisms inherently built into the Peterborough Highway Services Contract.
- 9.3 Legal implications – The Council is placing further works packages under the existing Contract pursuant to its powers contained in sections 30, 38, 43, 50, 96, 134, 278 and 301 of the Highways Act 1980. The Peterborough Highway Services Contract was procured under the Competitive Dialogue Procedure (under regulation 18 of the Public Contracts Regulations 2006) and permits the Council to call-off further works which are within the scope of the Contract.

10. DECLARATIONS / CONFLICTS OF INTEREST & DISPENSATIONS GRANTED

Declarations by any cabinet member consulted by the decision maker and any dispensation granted by the Audit Committee or Head of Paid Service (Chief Executive). Note, the Audit Committee grants dispensations where the member concerned has a pecuniary interest, whereas the Chief executive may grant a dispensation for these purposes to any cabinet member consulted on these proposals whether by an officer or another individual cabinet member where there is a common law conflict of interest that may not amount to a pecuniary interest under the Regulations.

11. BACKGROUND DOCUMENTS

Cabinet Members Decision Notice reference AUG/CMDN/068.