

**OFFICER REPORT TO EXECUTIVE**

**SURREY HIGHWAY SERVICES AND WORKS PARTNERING  
(SHP) CONTRACTS**

**REPORT ON PERFORMANCE**

**4 JULY 2005**

**KEY ISSUE/DECISION:**

To approve, based on the contract what, if any, extension should be awarded to the two Constructors, Carillion and Ringway, at the end of their initial four year contracts on 28 April 2007.

**SUMMARY:**

**INTRODUCTION**

1. The Surrey Highways Partnership (SHP) came into operation on 28 April 2003 to replace a number of disparate contracts that had previously operated in various parts of the County.
2. The contract strategy was devised in order to meet the recommendations of the Members Best Value Review of Managing and Maintaining the Highway Network and is an innovative contract based on partnering which seeks to move away from more traditional, adversarial contract arrangements. This has involved a significant cultural change within both organisations, the Contractors and the County Council.
3. Contract performance is measured by key performance indicators (KPIs). These were determined during contract negotiations and then agreed with each Constructor on award of contract. The level of performance achieved determines what, if any, extension should be awarded to the Constructors.
4. The contract states that at the end of year 2 performance will be evaluated in order to determine what, if any, extension should be awarded. This report has been prepared to identify the position in relation to contract extension for each Constructor.
5. The report also includes information regarding the SHP Improvement Plan, the Surrey Audit Service Management Action Plan and cost comparisons/ benchmarking information.

## **BACKGROUND**

6. Background information in relation to the SHP is available in the report entitled "Surrey Highways Partnership Progress Review" dated 8 July 2004 and submitted to the Transportation Select Committee.

## **KPIs GENERAL**

7. During the negotiation process KPIs were developed and agreed with all Constructors involved. These were then included in the contract document at Best And Final Offer with minimum acceptable levels added by Surrey and a requirement for each Constructor to insert figures for years 2, 3 and 4.
8. Once the contract was let KPIs were reviewed and detailed measurement processes discussed. In accordance with clause 23.1 of the contract KPIs were finalised by the Core Group and approved by the Client for each Constructor.

9. Surrey figures were included as a baseline in the contract. It was agreed that KPIs were not applicable for measurement in year 1 in recognition of the large scale changes taking place. Year 2, ending 27 April 2005, would be the first set of figures to be reviewed and utilised for contract extension evaluation.
10. Annex A contains details of the performance requirements and consequences for each Constructor.
11. 7 overall KPIs are generated within the contract. Each of these is split into individual elements such that there are 22 elements of performance measured. Every element has its own predetermined weighting applied such that when applied a target score can be derived for each of the 7 KPIs and for the contract overall. Comparing target and actual scores in accordance with the contract conditions as shown in Annex A determines what extension, if any, should be awarded.
12. KPI data is collected by each Constructor and audited by the SCC Contract Performance Teams. Surrey Audit Service also audit the figures and have approved those contained within this report.
13. During the course of the year it became apparent that whilst the KPI was still very relevant some of the ways in which the data was collected and applied did not present a robust measure of performance. It was in effect too early to obtain good performance ratings. Both Constructors agreed to vary the method of data collection which made the measure more robust and because of this some elements of the KPIs have not been measured across a full year. From the evidence available however it does seem that the new measurements are effective ones.
14. Both Constructors have agreed to work with County Officers to develop a new and additional KPI specifically to measure value for money.

#### **KPIs CONSTRUCTOR EAST (CARILLION)**

15. KPI figures for Carillion are included as Annex B and result in a Total Weighted Contract Objective Performance of 92.98% (90.01% or more up to and including 100% - category d).
16. In accordance with the contract the above level of performance will result in the current order term being extended by a period of one year (i).

#### **KPIs CONSTRUCTOR WEST (RINGWAY)**

17. KPI figures for Ringway are included as Annex C and result in a Total Weighted Contract Objective Performance of 101.46% (meets or exceeds the target with an individual KPI below 95% - category d).
18. In accordance with the contract the above level of performance will result in the current order term being extended by a period of one year (i).

#### **CONTRACT PERFORMANCE IN GENERAL**

19. Over the last two years there have been a number of well-publicised difficulties with contract procedures and scheme delivery. However there have also been a great many successes but these have not received similar levels of publicity.
20. It is clear that many of the early difficulties are being, or have been, overcome and that the benefits of the contract are starting to become tangible. For example last year the structural maintenance programme was fully delivered and almost all works completed in the summer season. This has never been achieved under previous contracts.
21. Key areas where performance improvement is still required include financial reporting, project management and communication. Improvement is required both within the contract and in the County's contract management arrangements. The prospects of achieving the improvements are excellent as both Constructors have acknowledged the requirement and made changes within their organisations to address the need. In addition proposed organisational changes within the Transportation Service will considerably strengthen contract management arrangements.
22. All soundings taken by County staff from other client authorities across the UK suggest Carillion and Ringway remain two of the best Constructors in the industry who are continuing to win works in competitive situations or are successfully securing extension to existing

contracts.

23. Whilst the contract has taken longer to settle down than originally anticipated, it is clear that steady progress is being made and both Constructors are committed to tackling those areas of performance, which are below expectations. Discussions with other County Councils suggest that our contract arrangements are performing at least as well, and often better, than those elsewhere.
24. Both Ringway and Carillion have recently been subject to assessment by the Highways Agency as part of their Capability Assessment Toolkit (CAT) process and both have been rated within the top 5 Contractors in the UK.
25. Putting aside any contractual issues it is felt that the disruption caused by and additional costs of further tendering weight against applying any restraint on contract extension.

#### **SHP IMPROVEMENT PLAN**

26. The Improvement Action Plan generated for the Select Committee has received continuous attention and version 8 is included at Annex D. It is formed of two parts as follows:  
  
Part 1: Tasks to be completed/progress report  
  
Part 2: Tasks completed/outcome report
27. During the last year the Improvement Action Plan has been managed and monitored by the Contract Review Team. At various stages additional elements have been added, the Plan has been structured around headline themes and as stated above it is now in two parts for clarity.
28. Much has been achieved since the commencement of the plan however monitoring will continue to ensure that all aspects of the plan are brought to fruition.

#### **SURREY AUDIT SERVICE MANAGEMENT ACTION PLAN**

29. Surrey Audit Service undertook a comprehensive audit of the contract and reported in January 2005. Transportation Service has produced a Management Action Plan in response that has been agreed with the Head of Service and Surrey Audit. The Action Plan is included at

Annex E. The actions are being regularly monitored and each action will be reported on an individual datasheet to record actions undertaken and the need for any future work that has been identified as part of the action.

### **FINANCIAL MANAGEMENT**

- 30. Financial management is an essential part of this contract that to date has not been functioning at an acceptable level. This is reflected in both the Improvement Plan and the Management Action Plan as there are a variety of actions related to financial management.
- 31. SCC and both Constructors are committed to ensuring that the provision of financial data within the SHP is given a high priority. Action plans are in place to deliver a step change to data provision and accessibility to data through the open book process. This will be tested when valuations are submitted for the early months of the 2005/06 year.

### **COST COMPARISONS AND BENCHMARKING INFORMATION**

- 32. A comprehensive questionnaire was sent to a wide variety of other Highway Authorities and approaches made in person in order to gain cost information to use for comparative purposes.
- 33. The table in Annex F provides information on various types of work. Figures show that costs in Surrey are in line with those that apply in other authorities.
- 34. It must be noted that the contract was awarded following a price/quality evaluation of 5 major UK contractors following a process developed in conjunction with Price Waterhouse Coopers and agreed by the Transportation Select Committee Task Group.

<b>RECOMMENDATIONS:</b>
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- 35. Based on the KPI data collected, audited and reviewed against the contract requirements it is recommended that
  - a) Carillion be awarded a 1 year extension to the current order term, and
  - b) Ringway be awarded a 1 year extension to the current order term.

### **REASONS FOR RECOMMENDATIONS:**

36. The SHP contract states the consequences following measurement of the performance level achieved by each Constructor. The recommendations in this report are based solely on the measured KPIs and the actions required by the contract.

### **WHAT HAPPENS NEXT:**

37. If approved by the Executive, each Constructor and Local Committee Chairmen will be informed of the decision in a letter from the Executive Portfolio holder for Transportation.

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**Responsible:** Stephen Child, Assistant Head of Transportation  
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**Accountable:** Steve Lee, Head of Transportation

**Consulted:** Transportation Select Committee  
Constructors – Carillion and Ringway

**Background Paper:** Surrey Highways Partnership Progress Review,  
8 July 2004. Transportation Select Committee

