



Audit & Governance Committee  
7 December 2014

**Operation Horizon: Update on Savings**

**Purpose of the report:**

At a previous meeting the Audit & Governance Committee requested clarity and update on Surrey Highway progress in realising projected Project Horizon Savings, and to ensure that a process is in place for the financial transfer of savings to Surrey County Council (SCC). This was highlighted in the 2014 Audit Report and in the resulting Management Action Plan.

**Recommendations:**

That the Committee note the content of the report.

**Introduction:**

1. In February 2013 Cabinet approved a £100m investment in Surrey's road network. The investment programme (known as Project Horizon) was to resurface a minimum of 500Km (10%) of the council's road network over five year period.
2. The Audit & Governance Committee has been monitoring implementation of the Management Action Plan following the Internal Audit Report on Operation Horizon in May 2014. It has been particularly concerned about progress in implementing an automated solution to recover discounts from Kier MG.

**Savings Plan:**

3. In 2012 the 500Km programme was priced by Surrey Highways (using 2011 rates) at a total estimated cost of £120m. Therefore to enable programme delivery within budget constraints, Surrey Highways and its contractors, agreed a savings plan to realise £12m to £20m over the five year period.

4. The savings plan was based on two activities to deliver between 12% to 20% discount:
- Contract Discount (12%)**– suppliers would give SCC an automatic **12%** discount of costs provided SCC continue to guarantee a minimum amount of turnover (expressed in material tonnage) per year
  - Value Engineering (4% – 8%)**– in the addition to the above, all parties agreed to a minimum **4%** value engineering target for each scheme and a stretch target of **8%**. This would incentivise teams to maximise efficiency and minimise design costs
5. See below for summary of success against targets:

### Contract Discount (12%)

6. The table below confirms the combined Tarmac/Kier estimated and actual realised saving to date:

<b>Contract Savings Summary</b>			
	<b>Annual Budget £m</b>	<b>Forecast Savings £m</b>	<b>Actual Savings £m</b>
Year 1 (2013/14)	31	£3.72	<b>£3.27</b>
Year 2 (2014/15)	24	£2.88	<b>£2.16</b>
Year 3 (2015/16)	15	£1.80	<b>£2.88</b>
Year 4 (2016/17)	15	£1.80	£1.80*
Year 5 (2017/18)	15	£1.80	£1.80*
<b>Total</b>	<b>100</b>	<b>£12.00</b>	<b>£11.91</b>

\*Savings for year 4 & 5 based upon forecast not actual realised

7. The table above confirms that Surrey Highways are on target to realise the contract savings of 12%. For 2014/15 savings, an interim payment of £1m has been transferred to SCC, with the outstanding balance to be transferred before the end of the year. However, two risks have been identified:
- Timing** –contract assumed savings would be paid quarterly based upon annual design estimate of material. However in practice tonnage can only be agreed by both parties once actual programme has been delivered. Thus savings are thus not been agreed until the end of each financial year. A new process due to be introduced in 2016/17 is anticipated to re-introduce quarterly savings payments.
  - Tonnage Values** – due to the focus on residential roads in remaining programme, there is a risk that full tonnage volumes will not be achieved. SCC and contractors are therefore reviewing options to ensure savings continue to be realised

- c. **Chertsey Depot** – original agreement assumed SCC would lease land for storage. However, this has proved difficult to achieve as part of formal lease. In the first 2 years of contract, suppliers were content to apply savings on an informal basis, providing access to site was maintained. However, they have recently expressed risk for this arrangement continuing for remainder of programme. Surrey Highways, property services and Kier are reviewing options to determine how risk can be mitigated.

### Value Engineering (4% to 8%)

8. The table below confirms estimated value engineering savings and actual realised amount:

	<b>Annual Budget</b>	<b>Estimated minimum saving</b>	<b>Estimated Stretch Saving</b>	<b>Realised Savings To Date</b>
	<b>£m</b>			
Year 1 (2013/14)	31	£1.24	£2.48	<b>£1.80</b>
Year 2 (2014/15)	24	£0.96	£1.92	<b>£1.80</b>
Year 3 (2015/16)	15	£0.60	£1.20	<b>£0.84</b>
Year 4 (2016/17)	15	£0.60	£1.20	<b>£1.30*</b>
Year 5 (2017/18)	15	£0.60	£1.20	<b>£1.30*</b>
<b>Total</b>	<b>100</b>	<b>£4.00</b>	<b>£8.00</b>	<b>£7.04</b>

\*Savings for year 4 & 5 based upon forecast not actual realised

9. Surrey Highways are thus on target to realise value engineering savings of 7%, against overall stretch target of 8%. This has been delivered through ensuring effective management of night works and traffic management and minimising construction length for schemes
10. Year 3 value engineering saving has been negatively impacted by increased Tar cost (classed as hazardous waste), however, revised process for Year 4 & 5 will mitigate future impact.

### Conclusions:

11. Surrey Highways remain on target to achieve savings target of 19%, realising a total saving of £19m through delivery of project horizon.
12. Risks remain in the final years of the programme particular in finalising tonnage values and Chertsey depot, however, agreed negotiation and action plan advises risks can be mitigated through effective dialogue and resolution.

**Financial and value for money implications**

There are no direct implications.

**Equalities and Diversity Implications**

There are no direct implications.

**Risk Management Implications**

See paragraphs 8–10.

**Next steps:**

Surrey Highways will continue to deliver savings strategy, mitigating risks and report to Environment & Select Board on progress and remaining programme for Horizon.

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**Report contact:** Jane Young, Pavement Team Manager, Highways and Transport, 01372 832174

**Sources/background papers:**

None.