



Economic Prosperity, Environment & Highways Board
10 December 2015

Highways & Transport Member Reference Group Report on Kier Contract extension

Purpose of the report: Scrutiny of Services

This report sets out the Member Reference Groups (MRG) findings on the Kier contract and is intended to provide the Economic Prosperity, Environment & Highways Board and Cabinet with member insight to help inform the final decision on contract extension.

The MRG have undertaken an extensive review of the Kier contract. Although they have some outstanding concerns about elements of performance, overall they are satisfied that Kier have demonstrated value for money and their commitment to the partnership. On that basis, and subject to the inclusion of some contractual conditions in the contract extension agreement to address the issues identified, the group would support a decision by Cabinet to extend the Kier contract to its full term (2021).

Introduction:

1. The Highways and Transport Service is going through a process of transformation. The aim is to ensure that it can continue to maintain and improve the highway network, whilst responding to the challenges and opportunities it faces in both the short and longer term.
2. The service has developed a long term vision (appendix 1) which sets out their contribution to the council's corporate strategy and is informed by user and partner needs. The vision underpins the development of a 5-year Strategic Business Plan (Apr 16 – Mar 21). The Plan comes in the wake of new funding opportunities, including the Local Growth fund, Flood Defence grant and longer term funding arrangements for maintenance activities from the Department of Transport. All of which support the transition to longer term planning, which is critical to reducing costs and improving services. The business plan will provide greater definition about works and levels of service and help the service to secure best value from the supply chain.

3. In June 2014, a Member Reference Group was convened to provide an elected member perspective and insight into current and future performance. The group is chaired by Michael Bennison and has representation from across political parties; Peter Hickman, Stephen Cooksey and Richard Wilson. The terms of reference of the group are included in appendix 2.
4. One of the service's priorities was a decision on whether to extend the current Kier contract for highway maintenance service beyond the first break point opportunity in 2017. It was agreed at the first meeting in June 2014 that this would be the primary focus of the group, in order to provide sufficient lead-in time to re-procure should it be necessary.
5. Last year the group undertook an extensive review of the Kier contract and in December 2014 produced its first report to Select Committee. The report identified a number of areas which needed improvement including communications, IT systems, contract management as well as delivery and performance management. The report also identified examples of good practice, which demonstrated the potential of the contract. As a result the group recommended an initial one year extension, taking the contract to 2018. The group recommended that Keir work with Service to develop their full contract extension proposal in line with the new 5 year business plan. A copy of this report is included in Appendix 3.
6. Since the last report to Select Committee the group has:
 - 6.1 Reviewed the Highways & Transport Strategy including its Purpose and how it is aligned with the council's corporate strategy.
 - 6.2 Reviewed and commented on the Asset Management Consultation toolkit which will be rolled out to local committee chairs and other members in October 15. The outputs will be used to help inform the service's capital budget allocation priorities over the next 5 years.
 - 6.3 Reviewed and commented on the emerging thinking from the 5 year Business plan.
 - 6.4 Visited Northamptonshire Council to observe Kier operations for another Council.
 - 6.5 Reviewed their Kier SWOT analysis
 - 6.6 Met Kiers Commercial and Operational managers to review their management of subcontractors.
 - 6.7 Participated in a "spot" audit of Kier work to review quality and efficiency.
 - 6.8 Considered the findings of Procurement's Best Value report on Kier.

Review of contract issues identified

7. The group identified a number of strengths in its first report which demonstrated the successes and future potential of the Kier contract, this included:
 - 7.1 The overall management and quality of large capital maintenance programmes (i.e. Project Horizon)

- 7.2 The introduction of a new safety defect process which has improved the identification and quality of repairs through new systems and team integration.
 - 7.3 The implementation of the new Works Manager IT system, which has led to a number of operational efficiencies and improvements on reporting, real time updates and scheduling.
 - 7.4 Kiers positive response to extreme weather conditions. There have been two severe weather events in the 4 year contract to date; snow in year 2 and floods in year 3. In 2013/14 Kier mobilised additional resource from contracts outside of Surrey to deal with the flooding crisis. Kier and Surrey have worked together since to incorporate the lessons learnt from these events into an improved winter service plan, although the recent milder winters has meant that Kier have yet to be tested against this revised plan.
 - 7.5 The introduction of the Damage to County process which led to a significant rise in the number of successful claims made by the County.
8. In coming to its conclusions the group have also reviewed what steps have been taken by Kier and the service to address the weaknesses identified in the first report. Taking each of these issues in turn.

Delivery & Performance

- 9. The overall management of sub-contractors is variable and more effective control of the Kier supply chain is required:
 - 9.1 A new Business & Strategic Improvement Team has been created as part of the service restructure. This will provide an independent quality assurance function and clear and enhanced programme management function.
 - 9.2 Kier are working with Surrey to develop a new joint Procurement and Supply Chain strategy. This will include a comprehensive sub contractor re-procurement exercise and a refreshed performance measurement regime with increased member visibility and scrutiny of the Kier supply chain
- 10. The contract restricts the ability to commission local businesses to undertake small low value but high visibility works:
 - 10.1 The new joint Procurement strategy will include local supplier targets and will be measured via a new incentive based performance framework. This will compel Kier to pro actively engage with local suppliers.
- 11. Greater integration between Surrey and Kier officers is needed to improve processes and achieve greater efficiency:
 - 11.1 Kier and Surrey are working together to deliver a new Integrated Delivery Unit within the Works Delivery Group. The intention is to remove public and private sector boundaries, reduce duplication of effort and waste, improve decision making and allow the group to focus on strategic outcomes.

Communication

12. Communication is inconsistent and unclear. Surrey and Kier need to better manage customer expectations and be proactive in keeping all stakeholders informed of decisions and changes to any planned programmes and the reasons why:
 - 12.1 As part of the restructure the service has created a dedicated Works Communications Team within Local Highways, which is now responsible for leading and managing all stakeholder communications. Although the Team is not fully resourced yet they have already implemented a new communication strategy for planned works which is starting to improve the level of customer engagement.
 - 12.2 A key strategic outcome of the service's new 5 year business plan will be to "improve resident engagement" to support the Resident Experience corporate goal. It has been agreed that both Kier and the service will have new outcome based performance measures, designed to support the right behaviours, and improve the end to end process for customers.
 - 12.3 Surrey and Kier have developed a new Communication & Engagement Strategy linked to the business plan and Customer Service Excellence accreditation. This includes a review of the website and end to end processes within the life of the contract.

13. Front line and lower level staff need greater empowerment to make local decisions and be more flexible:
 - 13.1 As part of the restructure the service determined that more decisions impacting on routine or discretionary spend should be made by officers who are closest to customers. To help achieve this, the Area Teams have been strengthened with new Principal Highway Maintenance engineers and reporting lines rationalised. The responsibility of condition works for drainage, illuminated street furniture, grass, weeds, arboriculture, safety barriers, signs and road markings were also moved to the group. They have also created new Enforcement officer roles to enhance the ability to deal with enforcement issues.
 - 13.2 In order to reduce the lead in time for minor planned works a new in house minor works gang is being piloted by Kier. This will allow front line staff greater flexibility and empowerment to respond quicker to high visibility but small, low value works. If this proves successful it will be implemented as part of the contract extension.

IT systems

14. The new Works Manager System has been implemented within the customer and reactive service functions but it needs to be rolled out faster and more widely across the service to maximise efficiency and improve online reporting for residents and members.
 - 14.1 As part of the 5 year Business Plan Kier is working with Surrey to develop their contribution to the IT strategy, this includes the roll out of the Works Managers system to planned works which will increase the efficiency and overall management of schemes.

Best Value & Market assessment

15. In addition to reviewing Kiers performance the group have considered, in detail, the findings of Procurement's best value assessment report. The group reviewed evidence based on the original procurement benefits in 2010, Kier profit and loss data, highway costs versus tender inflation prices, current market analysis /forces and re-procurement costs. The group are satisfied that the conclusions of the report are sound and that remaining with the Kier contract appears the optimum commercial option. The group agree with the report recommendation that Kier should retender all sub-contractors to test the market rates for value for money.
16. Although not directly involved in the contract price negotiations, Kier have outlined their commercial sustainability concerns about the lump sum payment for safety defects to the group. The objectives of the price negotiations are to ensure the contract is commercially sustainable, improve cost transparency and manage the impact of variable turnover on the contract. The group expect the Board take into account the output of these price negotiations on the impact on future best value.

Strategic Opportunities:

17. The group recognise that Kier are keen to develop a broader strategic relationship with Surrey beyond the Highways contract, which is being explored through Project Oaktree. Kier have a wide portfolio including property, waste, facilities management, waterways management and passenger services. They have the capacity and capability to bring greater expertise, knowledge and resources to Surrey to drive improvement, innovation and efficiency.
18. Kiers recent acquisition of Mouchel, who have major contracts with Highways England including the A3 through Surrey, means that Kier are now responsible for maintaining one third of the UK's strategic road network. This highlights the potential of cross boundary infrastructure opportunities and supply chain benefits with our southern county counterparts. The group encourage officers to explore the economies of scale and wider business interests of Kier to support the council's wider objectives including devolution, facilities management, customer service and procurement.

Conclusions:

19. The group have undertaken an extensive review of the partnering contract over the last 18 months and have identified a number of areas which needed to be improved, including some outside of Kiers responsibility. The group are pleased to note that many of these issues have been or are in the process of being addressed either through the restructure, improvement plans and contract negotiations with Kier.

20. In conclusion having reviewed all the evidence the group would support a cabinet decision to extend the Kier contract to 2021. However, in order to ensure that Kier continue to progress the improvements/issues identified, it would like the following conditions included in the contract extension agreement:
 - 20.1 Delivery of a new joint procurement strategy which addresses the sub contractor performance management issues and actively supports local businesses.
 - 20.2 Implementation of a new performance framework for Kier and its supply chain which incentivises good performance and consequences for poor performance.
 - 20.3 An efficiency action plan which looks at integration opportunities to reduce duplication of effort and waste in teams.
 - 20.4 A firm commitment from Kier to support our Customer Service Excellence ongoing accreditation requirements, which includes a review of customer defect reporting and programme management processes and an improved website.
 - 20.5 A new Communications and Engagement Strategy which should be embedded into all future schemes and is linked to the contract performance framework to ensure compliance.

Recommendations:

The group recommend:

21. That the Economic Prosperity, Environment and Highways board endorse the extension to the Kier contract and commend to Cabinet for approval, subject to the conditions outlined above.
22. That subject to Kier extension approval, the group continues to have an ongoing role in the contract to ensure that the recommendations are progressed and benefits realised.
23. That the Board reviews the MRGs terms of reference and considers their ongoing role in the contract and the service's new 5 year business plan.

Next steps:

24. Following consideration by the EPEH Board, the Member Reference group's report will be submitted to Cabinet in February 2016.

Report contact: Jason Russell, Assistant Director Highways and Transport

Contact details: 020 8541 7395, jason.russell@surreycc.gov.uk

Appendices

- Appendix 1 Highways & Transport Vision
- Appendix 2 Member Reference Group Terms of Reference
- Appendix 3 Dec 14, Highways & Transport Member Reference Group report to Select Committee