

Annex A**Overview of Highways Contract with Kier Highway Services**

In 2011, SCC entered into a contract with May Gurney Limited to provide a number of services under the Core Maintenance Contract – these included reactive elements such as Immediate Response, Safety Defect Repairs and winter gritting. The suite of services also includes a number of work streams covering planned work including carriageway and footway surfacing, delivery of improvement schemes (ITS, sustainable transport and LEP funded).

May Gurney were later acquired by Kier Highway Services and continue to deliver the services.

The contract was let for an initial 6 year period with the option to extend by up to 4 years. In 2016, following a period of review and a number of proposed changes and improvements the Council extended the contract for the full 4 years to April 2021.

The structure of this arrangement means that the Council still own and develop the various policies and programmes necessary to manage the County's Highway and associated assets and Kier are engaged to deliver the work to defined standards. There is a contractual requirement for the contractor to carry out and evidence quality assurance programmes to demonstrate positive outcomes in the work being delivered. The council then carries out spot checks and audits to assure the validity of the information provided is accurate.

Key Features

1. Several of the primary functions of the contract such as the Safety Defect Service (e.g. pothole response) and Winter Service are delivered via a lump sum arrangement. This means that the Council pay a fixed amount to Kier to deliver a specified service which includes some risk transfer on volume and claims liability, thereby giving the Council greater certainty on expenditure for the highway safety related activities. For example, a follow up visit to permanently repair a temporarily fixed pothole does not become a further charge to the Council. Similarly, Kier are required to carry out as many gritting runs as required over the winter period without extra charge to the Council when we are experiencing prolonged cold weather.
2. Some of the operational challenges in terms of delivering work on the highway relate to the overall programming of resources, health and safety regulation and road space availability. Surrey's network is heavily used by traffic and work has to be coordinated around other works, including utilities, which means scheme delivery can be difficult to pinpoint in terms of dates and subject to some change. Several programmes of work also have seasonal limitations whilst others need to go through decision making processes that often create peaks in workload at the end of the financial year.

3. Whilst Kier deliver some of the services through their directly employed workforce, they also engage a suite of subcontractors to ensure appropriately skilled resource carries out the work and that there is sufficient capacity to any increase or decrease demand from the Council due to changes in budgets or priorities. Kier bear the responsibility for managing this supply chain to ensure high levels of performance are achieved across all areas without having to take on, or transfer to the Council, the cost of maintaining a workforce during periods of low demand.
4. The benefits of longer term agreed investment programmes have also been realised as part of the Kier contract. The introduction of the Horizon maintenance programme enabled collaboration with a number of suppliers, with the certainty of work across several years creating opportunities for programming efficiencies and volume discount. This led to the achievement of significant savings for the Council in the form of being able to deliver a £120m programme of work for a £100m investment.

Contract Improvements

There have been a number of improvements made over the past 7 years. Some of these have been smaller interventions such as strengthening the working relationships between teams to simplify the processes and others have been more substantial. As part of the contract extension agreement several changes were made to the financial model as demonstrated by the following two examples:

1. Until 2015/16 the Council paid Kier a percentage based upon turnover of all work delivered to cover the non-work costs associated with delivering the Council's highway works programmes. These costs included the operation and maintenance of the depots as well staff for managing and administering the contract (supervising work on site, progressing road space applications, cost management of the supply chain etc). As the annual contract spend substantially increased through additional investment such as Horizon it was recognised that the overall percentage payment approach may not offer the best value to the Council.

In April 2016, the Council implemented a new arrangement in which we now only pay for the non-works costs incurred by Kier. This provides greater clarity in expenditure and improved value for the Council, for example if a Kier employee is on holiday, sick or attending a training course we are not charged for their time.

2. At the outset of the contract, the Council agreed a set of prices for the various delivery elements built into a "schedule of rates". This is a common contractual approach and enables the Council to work to a single price for each item however the Contractor may pay slightly different rates to each of its subcontractors getting the benefit or disadvantage of the variations. Whilst some cost certainty is acknowledged by this approach,

in order to improve cost transparency and maximise opportunities of closer relationships with the wider supply chain, such as those experienced during Horizon delivery this approach was reconsidered. Subsequently in 2017, a joint re-procurement exercise was carried out which enabled a 5% reduction in prices, further collaboration with the supply chain and a switch to the Council now paying the actual rates agreed with each subcontractor.

Summary

A partnering contract approach and continuous performance monitoring has enabled the Kier contract to undergo a number of changes responding to pressures and improving value for money and service delivery. There are many successes and lessons to learn from this contract which will assist in determining the most appropriate approach and operating structure for the next contract.

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