

# Highways and Growth Select Committee

6 December 2018



## Overview of the Highways' Core Maintenance Contract

### **Purpose of report:**

To provide Members with an overview of the performance of the current Core Maintenance contract with Kier Highways, Value for Money assessments of the arrangements and inform the Terms of Reference for a new Task and Finish group that will support and scrutinise the service as it develops a new contract model and specification for 2021 onwards.

### **Introduction:**

- 1) As discussed at the October Highways and Growth Select Committee (HGSC), Surrey County Council's Highway Service has several existing contracts to deliver maintenance and investment activities. Most of these contracts come to an end in 2021 and on this basis, we are now considering future contract arrangements.
- 2) Although there is a multiple supplier arrangement in place, the majority of activities are currently undertaken by Kier and an overview of this contract was provided in October.
- 3) This report aims to provide additional information to HGSC specifically around performance and value for money assessment of the contract arrangements delivered by Kier.

### **Background**

- 4) The current contract arrangements are reflective of the Council's position in 2011 in which it was considered appropriate to move away from a single supplier that delivered everything. This was primarily due to concern over achieving value for money for those activities which required specialists as these were attracting significant mark up and overhead payments.
- 5) Given the number of statutory Highway services being delivered there was also a need to ensure provision of a resilient service that could manage delivery risks, such as large peaks and troughs in demand. This consideration in conjunction with achieving greater value for money led to the current contract arrangements.
- 6) The current contract has undergone a number of improvements since it commenced and continues to align operational delivery and

improvement opportunities with the Council vision. Some examples of this have been included as Annex D.

### **Contract Structure**

- 7) The various service areas are set up in different ways to maximise the effectiveness and efficiency to deliver the best outcomes.
- 8) For example, the surfacing element is arranged around an agreed Schedule of Rates which have been competitively tendered. Each scheme is unique and this allows engineers to build up a bespoke cost based on the needs of the location. This also allows engineers the flexibility to amend the requirements in order to get the best outcome and most efficient price – often known as Value Engineering – and may include combining other planned works to reduce costs on traffic management and limit disruption on the network.
- 9) A number of areas such as safety defects and winter gritting can be reasonably well forecast but are also subject to the weather conditions. The Council could agree a competitive price for each repair or gritting run carried out, only paying for what is completed however, the Council can then be at risk of increased costs due to worse weather conditions or higher volumes of defects.
- 10) To mitigate this, the contract includes carrying out some activities under a fixed price “lump sum”. This arrangement has several benefits including the transfer, from SCC to the contractor, of risks around increasing volume and subsequent cost, and also helps to drive productivity and provide a more seamless service to the public. Completed repairs have a 2 year warranty period and therefore should a repair fail within that time, the cost of carrying out the additional repair is borne by the contractor not the Council.
- 11) Given the high-volume nature of some highway activities lump sum arrangements are common place across the industry. Regular reviews are undertaken of these services to ensure the costs and delivery are reflective of the conditions and previous experience in Surrey.

### **Contractor Performance**

- 12) An outline of the performance management arrangements was provided at the HGSC in October. The full list of the 21 Key Performance Indicators (KPIs) with target levels and supporting descriptions is provided in Annex A. The targets are designed to be challenging and include both for very specific activities, such as response times to defects, and more general performance measures relating to the whole of the Highways & Transport Service, such as the customer satisfaction scores. Whilst there is an obvious link between customer satisfaction and the performance of the contract it is important to note that this is a service wide indicator and the level of influence the contract can have on the result is not easily defined.
- 13) Performance is reviewed monthly and improvement plans implemented where appropriate, usually where there is an ongoing

pattern of red results. Award of contract profit to Kier is also linked to the KPI results, providing an incentive to ensure performance remains at a good or acceptable level.

- 14) KPI scores for 2018/19 quarter two (July to September) are provided in Annex B. As shown in the annex there is some fluctuation across the months with 2 red and 3 amber results remaining at the end of the quarter.
- 15) Amber and red results should not in themselves be a cause for immediate alarm. It should be noted that the Council has set high expectations for the performance levels – what is considered green – and is amongst the highest when compared to other Local Authorities. There can be any number of reasons why performance has fallen below the target levels and the regular reporting and review of the KPIs allows changes to be highlighted and action plans produced to make improvements. As examples:
  - a) KPI25a records the number of jobs which do not have a permit. The Council has set a very high tolerance of zero jobs without a permit to qualify for “green” performance and whilst a single job will therefore trigger a red result, there are several thousand jobs completed each month meaning that single failure represents just 0.02% failure rate.
  - b) KPI3c records the outputs of the wider Council Resident’s survey which is carried out each quarter and covers their perception of the entirety of Highways’ activities. The results will therefore be static for each month in a quarter and Kier as the Contractor have little if any direct influence on the performance result.
- 16) Included in the contract is a mechanism which links the profit paid to the contractor (up to a maximum of 4% of turnover) with the performance “on the ground”. At the outset of the contract there were specific financial adjustments measured against individual KPIs however analysis showed that this could result in people focussing on individual performance failures to avoid a deduction rather than looking at trends and so on to lead to long-lasting improvements.
- 17) As part of the contract extension in 2016, changes were made to how the profit was awarded in relation to performance although performance is still measured against individual KPIs each month. Profit is calculated on a quarterly basis by first aggregating the performance for each KPI across the quarter and then by aggregating the performance across all KPIs for the quarter. This “quarterly aggregated performance” score is then correlated against a schedule to determine the level of profit to be paid for that period
- 18) Recent benchmarking has been carried out on SCC’s contract performance measures compared to other authorities and a summary provided in Annex C. As highlighted in the annex there are challenges in comparing like for like performance measures as each authority has differing contract arrangements. It is difficult to conclude best in practice from this initial work however it does demonstrate that the Kier contract does have a wide range of performance measures compared to some other authorities.
- 19) In terms of where the performance for Surrey ranks compared to other authorities, of the ones you could loosely compare:

1. Responding to emergency defects – performance is lower than some
  2. Completing defect repairs in time – performance is the highest listed
  3. Responding to customer enquiries – performance is the highest listed
  4. Customer satisfaction – is not really comparable as measures are too different
  5. Winter salting routes completed – performance is joint highest listed
- Please note that some data refers to different time periods which may provide a less than perfect comparison to the most recent performance presented by Surrey County Council.

20) It should be noted that in the broadest of terms, levels of customer satisfaction will largely be driven by the amount of money spent on highway maintenance and if expectations are high (e.g. few if any potholes and roads re-surfaced on regular basis) satisfaction will likely be low if the Council is not investing anything close to the amounts that would be required to achieve this standard consistently across the council's roads, footways and structures etc.

#### **Value for Money Assessments**

- 21) With any long term arrangement for delivering services, it is important to carry out periodic assessments to ensure that what was agreed at the outset remains fit for purpose and when benchmarked against the wider market place still offers value for money.
- 22) As part of the review of the Kier contract leading to the award of the extension period, the Council's procurement team carried out a value for money assessment. This was scrutinised by a Member Reference Group and subsequently presented to the Economic Prosperity, Environment and Highways Select Committee in Dec 2015 ("Best Value and Market Assessment" reviewed in paragraphs 15 and 16).
- 23) The Select Committee's report on the proposed extension award was presented to Cabinet in its February 2016 meeting. Paragraphs 16-22 cover the "Financial Implications and Value for Money".
- 24) The key finding of this assessment was that the rates of inflation applied into the contract rates was lower than the prevailing rate of inflation across the review period and significantly lower than market prices if it had been retendered due to higher than inflationary increases across the sector.
- 25) The Council has more recently commenced a Value for Money (VfM) Assessment on the Highways Contracts, facilitated by Proving Services. The VfM assessment covers a wide range of areas including how the contract is structured, its appetite for risk and how services are being delivered. The results can then be used as a baseline to determine areas of focus to improve value for money and later to measure success following any changes made.
- 26) As the VfM assessment has been completed for a number of Highway authorities, the scores can also be used to gauge our position against others and identify areas of success within those

authorities to try and replicate. Initial results demonstrate that SCC performs well compared to other authorities in terms of this contract.

- 27) Work is currently ongoing to review the outputs of the assessment along with next steps and can be shared with the Task and Finish Group.

**Value for money benchmarking**

- 28) Similar to performance benchmarking there are challenges in comparing costs for delivery of services across authorities due to differing contract arrangements and the commercial sensitivity around sharing contractors' costs.

- 29) At a budget level an approximate comparison can be made of some activities across authorities as the following table indicates;

	Surrey CC	Hampshire CC	Hertfordshire CC
Road length	3,300 miles	5,400 miles	3,100 miles
Winter Maintenance budget	£2.4 million	£6.1 million	£3.5 million
Ave £ per Mile	£727	£1130	£1129

- 30) As part of the development of the future contract model, the Council will conduct further benchmarking and analysis to better understand the commonalties and differences in scope for each Local Authority. This will help inform meaningful comparisons leading to effective choices for the way services are structured and delivered.

**Conclusion**

- 31) The Council set out to address a number of historic issues with its' current contract strategy and recent performance and value for money reviews are positive and encouraging. Both aspects will be explored in more detail with the Task Group and help to inform the future contract strategy.

**Recommendations:**

- 32) Note the contents of the report
- 33) Form a Task and Finish group
- a) To understand the original Highways Maintenance Contract, changes to it, and reasoning behind why these changes were made, to provide an understanding of the context and potentially inform how the service could design the future contract.
  - b) To provide input on the contract model to be used.
- 34) To provide input on the Key Performance Indicators (KPIs) of the Contract, and how they will be measured and utilised to ensure good performance and value for money.

35) Develop close working relationships with peer Authorities to maximise the outputs of the contract review

**Next steps:**

Work with the Task and Finish Group to develop HGSC recommendations for the future contract strategy.

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**Sources/background papers:**

Annex A – KPI Descriptions

Annex B – KPI Results

Annex C – Benchmarking Results

Annex D – Overview of Highways Contract with Kier Highway Services

Annex E – Proposed Highways and Growth Select Committee Task and Finish Group Highways Maintenance Contract

Dec 2015 Select Committee Report:

<https://mycouncil.surreycc.gov.uk/documents/s26559/Highways%20Transport%20Member%20Reference%20Group%20Final%20Report%20on%20Kier%20Contract%20Extension.pdf>

Dec 2015 Select Committee Report Appendices:

<https://mycouncil.surreycc.gov.uk/documents/s26560/Highways%20Transport%20Member%20Reference%20Group%20Report%20Appendices.pdf>

Feb 2016 Cabinet Report:

<https://mycouncil.surreycc.gov.uk/documents/s27332/item%2010%20-%20Kier%20contract%20extension%20and%20variation.pdf>

**Glossary of acronyms:**

SHiP – Surrey Highways in Partnership

LSR – Local Structural Repair

ITS – Integrated Transport Scheme

PFI – Private Finance Initiative



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