



Efficiency Case Study

Local Authority	Devon County Council
Region	South West
Sector	Highways
Theme	Procurement
Benefits / Outcome	£2,743,000 cashable savings and service improvement
Publication Date	October 2010

Key lessons

- Enshrine a partnership approach within the contract structure.
- Contract terms include:
 - A sufficiently long contract period to facilitate investment by the service provider.
 - Contract extension possibilities as an incentive to improve performance.
 - Guaranteed minimum workload.
 - Fast track/rapid payment terms.
 - Certainty of payment for routine works.
 - Works ordering and payment system integrated with the council's maintenance management and finance systems.
- Introduction of a performance management system.

Summary

Devon CC reviewed their contractual arrangements for highway maintenance to improve value for money and service delivery.

The new term contract, which started in 2007, has a long contract period, a guaranteed minimum level of work, incentives, a performance management system, rapid payment terms, integrated systems technology, and provided for a partnership working style.

Substantial cashable efficiencies were achieved, public satisfaction has improved and the performance management system has demonstrated improvement.

Background

Devon CC is a geographically large two tier highway authority. Highway maintenance is managed from a head office and from three area offices which have significant devolved responsibilities. From 1996 when its direct labour force transferred, Devon had traditional term highway maintenance contracts let under the ICE 5th Edition conditions of contract. The contracts covered most highway maintenance activities and schemes, up to £0.25m with a turnover of £30- 35m. Some specialist work where DCC saw advantage in direct involvement was managed through separate contracts, eg trees, weed treatment and micro asphalt.

Drivers for Change

DCC wished to follow construction industry best practice and embrace a partnership approach within the terms of their highways contract.

The previous contract was mainly schedules of rates, but also had a sizeable cost reimbursable works component, mainly associated with locally responsive works. DCC were effectively programming, supervising and taking productivity risk for these works and wished to move the operational risk to the contractor. DCC would then adopt an audit role.

There was considerable inconsistency in works across the then eight areas and DCC wanted a more consistent approach.

DCC wished to obtain more value from their highway maintenance technology and systems and to integrate them with the contract management systems.

DCC wished to achieve maximum value for money and also introduce a performance management system to monitor improvement.

Improvement action

From 2005 to 2007, DCC developed their strategy for a new contract. An industry consultation was carried out and a new contract drawn up. To achieve a partnership approach within the contract DCC adopted the NEC 3 Term Services contract. The scope of the contract remained similar to before. The expected turnover was approx £35m, but an annual threshold of £20m was included. The contract was awarded on a 60:40, quality: price, basis.

To facilitate investment and to provide regular incentives, the contract term was set at 5 years with annual extension possibilities for a further 5 years based on performance. Poor performance from year 3 onwards can result in the maximum extension being reduced by a year each year, through to no extension award.

Payment terms for all work are a rapid 10 days from application plus 5 days from receipt of invoice, except for any disputed elements. Payment for routine work is a simple automatic process linked to the DCC maintenance management system, providing certainty of payment, but with an ability to revise payments later if necessary.

Responsibility for programming, productivity and supervision of minor locally responsive works was transferred to the contractor by extending coverage of the schedule of rates. Target cost was considered but not used due to the administrative burden and the difficulty in achieving consistency across the three area offices. New initiatives, rates, and any disputes are managed centrally and DCC area staff operate a structured sample works audit process across the contract.

DCC has a comprehensive maintenance management system which integrates inventory, works ordering, payment, works notifications, etc, using GIS which is also linked to the councils customer service centre. Works ordering is undertaken by DCC using hand held tablet computers. DCC planned for

the system to be fully integrated with the contractors systems such that works dates and payment details could be included.

A performance management system was introduced to enable measurement and to provide a basis for planned improvement and for contract extension. A suite of 16 performance indicators, see Appendix 1, is monitored monthly and the results reported to the Contract Board.

As the contract has progressed, DCC have allowed the service provider more control, eg the scope of the contract was recently enlarged to include surface dressing design.

Barriers

The 10 day payment term was initially very hard to achieve with the paper invoicing system first in place. The envisaged electronic payment system is now in place. Invoices submitted several months late, especially if works varied from the order, require more checking and payment can be delayed. DCC would consider different payment terms for late invoices in future. DCC would also consider increasing the scope of automated payments to include some minor works.

The contract minimum order values for minor works is susceptible to the way works are packaged, especially when using automated works programming systems, and can result in excessive application of minimum order values. Further clarity and system improvement is needed here.

Most DCC and SWH staff are located in different offices which brings communication difficulties, despite good systems. It is now felt that more effort to co locate DCC area staff and contractor's operational staff would improve communications.

The ambition to integrate systems and to use throughout the contract is proving difficult to achieve, in part through the need to fully change behaviours and also to difficulties in sourcing sufficient and suitable tablet computers.

Information on utilities works and DCC works where traffic management is involved is available on the council's GIS which is linked to the customer service centre. DCC would like to widen the scope of available information by including all maintenance work.

Outcomes

A cashable efficiency of 2,743,000 per year was demonstrated by comparing a typical full year work through the new contract against the previous contract, including an appropriate allowance for inflation. A full year is appropriate since routine maintenance is revenue funded as are small schemes in DCC.

Performance measured through the performance management system has improved as has public satisfaction with highway maintenance and general quality of work.

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Appendix 1 Key Performance Indicators

1	Safety	Reportable accidents per 100,000 employed per year for the Contractor's company (this is the Accident Incident Ratio or AIR) and their Sub-Contractors (SC) working specifically on the Contract.
2	Damage to Services	The number of incidents where damage has been caused
3	Complaints	To determine the number of formal complaints (Stage 1, 2 and 3), or enquiries, relating to the Term Maintenance Contract and the performance of the Contractor in responding to those complaints.
4	Customer Satisfaction	Undertake a satisfaction survey of customers and end-users (to include adjoining owners where applicable). The survey is to be issued on all works exceeding £45,000 in value, unless there are few properties directly affected by the works. Other 'sensitive' schemes to be included.
5	Highway Inspections	To measure the percentage of routine safety inspections completed within the allotted timescales.
6	Emergency Response	To measure the number of emergency response jobs attended within the prescribed time scale.
7	Winter Service Route Completions	To ensure that the road network is adequately treated throughout the winter months. (15 October - 15 April)
8	Winter Service Plant Failures	To demonstrate how well the Contractor is maintaining the plant & equipment provided by DCC during the winter months. (15 October - 15 April)
9a	Recycling	Percentage by weight of excavated material that is recycled or reused.
9b		Percentage by weight of excavated material that is set aside for recycling
9c		Percentage by weight of excavated material that is disposed of in licensed tip off site that is re-usable
9d		Percentage by weight of excavated material that is disposed of in a licensed tip off site that is not re-usable by virtue of contamination.
10a	Invoicing	Applications made within 10 days of works completion
10b		Invoice produced within 5 days of receiving certification from DCC
11	Traffic Man. Act Compliance	Percentage of inspections passed with no Non-Compliance being issued
12	Workmanship	Workmanship audits by DCC highway engineers