Appendix 1

The Highways Maintenance Service Contract (HMSC) has now been delivering the County's Highway Maintenance needs for 14 months.

Headline statistics for the first 12 months include:

- 154km (5.2% of the network) of planned Carriageway Surfacing projects and 138,000sqm of structural Carriageway patching delivered
- 32,423 Safety Defects completed (all within the allocated time)
- Over 49k Gullies emptied
- Over 12,000t of recycled material produced at Stamford Depot
- £400k of Vehicle Restraint Systems upgraded.

A major change from the previous Contract is how the various cyclic services are delivered. In the HMSC, these Core Services are defined by outcome specifications. This allows the Contractor to programme the various cyclic works within the constraints detailed in the Service Information in order to maximise efficiency producing a saving of £850k when compared to the previous Contract.

Obvious savings such as carrying out a number of cyclic activities under the same Traffic Management on high speed roads has contributed to reducing costs.

We are also inviting our partner organisations for Worcestershire including District Councils to utilise the same traffic management to carry out their functions such as litter picking.

The Worcestershire Highways team are continually looking at ways of improving delivery of these services to enhance efficiency further and reduce costs.

As previously stated, the new HMSC has a number of mechanisms to control prices and costs year on year. These are based on the successful mechanisms included in the last Maintenance Contract but using the experience of that Contract they have been modified to enhance the effects:

- Price Adjustment Factor (PAF) – This mechanism adjusts the service prices to account for inflation. This mechanism has been refined for the HMSC with different indices for different service areas to better reflect variable cost elements used in each Service Area.
- The Contractors Share (Pain / Gain) – This mechanism ensures that the Contractor strives to work as efficiently as possible, keeping WCC costs to a minimum. The mechanism works by comparing the actual costs to the Target Prices established from the tender. If the total costs for the year are less than the total of the prices then the Contract is in gain. This gain is split between the Contractor and WCC on a percentage basis as set out in the Contract. Should the costs be more than the total of the target prices then the Contract is in pain, this again is shared in accordance with the Contract.

  For the first two years of the contract the Contractor is entitled to the first 2% of the gain and if greater than 2% it is split 50/50. If in pain the Contract pays WCC the 2% back in full.

  The percentages reduce after year two, with WCC keeping more of the savings.

- Efficiency Factor – This mechanism helps drive down the tendered prices within the Contract period should there be any gain in the Contract. It does not allow any overall increases though, should the Contract in pain.

  The mechanism has been modified in the HMSC so that its effect can be applied to the next financial year's prices by calculating the effect on schemes completed by the 31st December on a rolling 12 month basis. This allows (by using some forecasting) the factor to be applied the following April.

  The factor is calculated by reducing the total of tendered prices by 50% of any gain achieved. Thus if £500k of gain was achieved, prices would be reduced by the equivalent of £250k in the service area where the gain was made.

The PAF has lead to Prices being reduced in a range between -0.2% and -5.5% for 2015/16.

The efficiency factor was calculated based on the first 9 months of the Contract to 31st December. The anticipated Contractor's share at that time was 0% so no efficiency factor was applied to 2015/16 Prices.

The Contractor's share for the entire 2014/15 period will be calculated next month when all final costs have either been established or it becomes too late to submit them. It is currently forecasted as a gain of £110k. This is mainly due to Ringway investing heavily in a number of the Core Services to ensure Contract targets were met. These activities taking place during the summer of 2014 so being included in the Efficiency Factor Calculation on the 31st December and a number of larger Public Realm and major maintenance schemes being completed post December 31st and making an amount of gain. This gain not being accounted for in the efficiency factor calculation in December but it will count towards the next calculation in December 2015.

The Contract encourages the use of recycled materials. Ringway have a dedicated facility at Stamford Depot where Recycled Hot Asphalt, Foam Base and Type One Stone are produced. Over 12,000t of these materials were produced and re-used in our projects during 2014/15. This has resulted in considerable savings. We also return asphalt planings to the quarry using the quarry's delivery trucks and receive £4 for each tonne returned.

Ringway are encouraged to keep Contract Management costs to a minimum. An example of this has been centred around the Purchasing Team. Having won a similar Maintenance Contract in Shropshire, a single purchasing team serves both Contracts. This team is based here in Worcestershire but costs are divided between Shropshire and Worcestershire Contracts. This saving is approximately £30k per year.

Ringway made some commitments in their Tender to add value and fulfil obligations under the Social Value Act 2012. To this end they have completed or are on target to complete these commitments. These include four Parish Makeover days and employing a number of apprentices a year.

There is no cash associated with KPIs on this Contract, the money being invested in work. Instead, excellent performance wins extensions to the Contract. The first six months were used to validate and ensure the proposed KPIs were viable and measurable. We are now

9 months into the first 12 months of recording results that will count towards the first extension opportunity. Performance so far is very promising.