

AGENDA MANAGEMENT SHEET

Name of Committee	Environment Overview And Scrutiny
Date of Committee	21 November 2005
Report Title	Management of the highways maintenance contract with Carillion
Summary	Report updates the Committee on the outcomes of reviews of the operation of the highways maintenance contract and outlines progress on addressing the issues identified by the reviews and provides information on the value for money provided by the contract.
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Would the recommended decision be contrary to the Budget and Policy Framework?	No.
Background papers	Best Value Implementation Plan for Routine and Highway Maintenance – Progress on the Highway Maintenance Contract. Report by Director of Planning Transport and Economic Strategy for the Environment Overview and Scrutiny committee 15 th February 2005. Audit Report – Highway Maintenance Contract Internal Audit Report issued by Treasurer’s Department September 2005. Highway Maintenance Term Contract and Highway Maintenance Contract 2004, Compensation Events and Other Liabilities. Reports produced by Legal Services for the External Auditors September 2005. Strike Rate of Compensation Events Version 2. Report produced by Peter Samwell Contract Project Manager for the External Auditors September 2005.

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s) County Wide
- Other Elected Members
- Cabinet Member
- Chief Executive
- Legal Ian Marriott
- Finance Reporting officer
- Other Chief Officers Director of PTES – reporting officer
- District Councils
- Health Authority
- Police
- Other Bodies/Individuals

FINAL DECISION YES

SUGGESTED NEXT STEPS:

Details to be specified

- Further consideration by this Committee
- To Council
- To Cabinet
- To an O & S Committee
- To an Area Committee
- Further Consultation

Agenda No

Environment Overview And Scrutiny Committee 21 November 2005.

Management of the Highways Maintenance Contract with Carillion

Report of the Director of Planning, Transport and Economic Strategy and of the County Treasurer

Recommendation

That the Committee reviews and comments on the management of the highways maintenance contract with Carillion and on the value for money being obtained from the contract.

1. Background

- 1.1 A Best Value Review of routine and structural maintenance in 2001 resulted in three key recommendations:
- A review of agency agreements with the Districts
 - Reorganisation of management of the service to align with Area committees
 - Introduction of a new highway maintenance contract

The first two actions were successfully implemented in April 2003.

- 1.2 A new highway maintenance contract was awarded to Carillion and commenced operation in May 2004. In order to benefit from economies of scale, all routine and structural maintenance activities were included in one contract.
- 1.3 The aim of the contract is to encompass the principles of the Egan Report on Rethinking Construction, and move away from a traditionally adversarial relationship with the contractor, towards partnership working, by placing emphasis on core values, quality, performance management and continuous improvement.
- 1.4 The contracting process was supported by Dr Neil Jarrett, Collaborative Working Centre (CWC Ltd) for part of the time, and by Arup, who acted as consultants to the procurement process.

- 1.5 The basic premise of the contract is to set target costs for each activity. If costs exceed the target, the extra cost is shared between client and contractor. If costs are below target, client and contractor share the savings. The contractor's profit percentage is agreed at the start of the contract, the idea being to remove any disincentive whereby the contractor has to continually make claims in order to make a return.
- 1.6 In tandem with target setting, WCC and Carillion are to work together to identify and eliminate waste and inefficiencies so that savings can be achieved for both parties against targets.

2. Duration and Value of Contract

- 2.1 The contract is for a period of seven years with no break clauses or options for extension.
- 2.2 At tender stage, the estimated value of the contract for the whole period was approximately £85 million. Carillion's tendered prices for the first year of the contract, including works and fees, were £13.6 million.

3 Contract Audits and Reviews

- 3.1 When the contract began it was always understood that two audits/reviews would be undertaken during the first year.
- An independent review to be commissioned by PTES to be carried out about 6 months into the contract.
 - An Internal Audit review planned for the 2004/05 financial year.

4. The Jarrett report

- 4.1 The independent review was commissioned from Dr Neil Jarrett from CWC Ltd, and Alan McFarland from Arup. They were asked to assess progress on the implementation of the contract concentrating in particular on collaborative working.
- 4.2 Dr Jarrett's report, produced in early January 2005, concluded that:
- "Both parties have been stretched by solving day-to-day problems presented by the new working relationship. As a result changes in overcoming the entrenched traditional processes on both the client and contractor side are slow".*
- 4.3 Extracts from this report, and an action plan for addressing the issues identified, were reported to Environment and Rural Affairs Overview and Scrutiny Committee on 15 February 2005. An update on progress with the action plan (requested by Members at the February meeting) is included in the comprehensive action plan attached as Appendix A.
- 4.4 Dr Neil Jarrett also met the internal auditors in December 2004. At that meeting, it was found that both parties working separately had identified many

of the same issues. However, some areas covered by the internal audit review were not part of Dr Jarrett's work or were covered in less depth, and vice versa.

5. Background to the Internal Audit

- 5.1 The internal audit plan for 2004/5 included a review of the Carillion contract, covering such issues as the operation of the contract and a review of the procurement process. Terms of reference for the review and an October start date were agreed in September 2004.
- 5.2 In September 2004 a County Councillor raised queries about the operation of the contract. These queries had previously been raised with PTES and covered delays in road surfacing work, stolen chippings and adequacy of training.
- 5.3 Internal Audit started investigating these queries, but before they were complete, another Councillor raised queries relating to the cost and size of the surface dressing programme compared to the previous year. In December 2004 concerns were also passed on about the poor quality of highways work and whether value for money was being achieved.
- 5.4 While investigating the specific queries raised by members, internal audit had by then also started to review the general management of the contract. In December 2004 internal audit produced a briefing note for the County Treasurer covering all of their work to date, which he discussed with the Director of PTES before Christmas. In view of the concerns being expressed it was decided to extend the scope of the planned audit by increasing the level of testing.
- 5.5 Internal audit produced a further briefing note for the County Treasurer at the end of January 2005, who updated the Director of PTES. In February 2005 the County Treasurer decided that audit work was sufficiently advanced to issue briefing notes to the Councillors involved.
- 5.6 During May 2005 a further request for information was received from a District Councillor requesting the budgeted and actual costs for the previous two years, particularly in relation to the surface dressing programme.

6. External Audit and the issue of the Internal Audit Report

- 6.1 Audit work continued during March and a draft audit report was issued to PTES in April 2005. Following the initial PTES response and some re-structuring of the report, a revised draft audit report was issued to PTES in July 2005. These delays were caused by a number of difficulties encountered in agreeing the draft report.
- 6.2 During this time the external auditors, PWC, were investigating the contract and in particular its overall strategic management. Other concerns raised by PWC related to whether the contract was delivering value for money. A portfolio of evidence was compiled by PTES to show the steps that were

being taken to deliver value for money and continuous improvement, including the management arrangements that were in place. These included:

- Details about the provisions made in the accounts for money that might be due to Carillion for the year 1 work (envelope of liability);
- Details of the compensation event claims made under the contract and the agreements made by Warwickshire in relation to these compensation event claims; and
- Details of the improvements that have been made since the contract began (given the fact that the contract requires continuous improvement).

6.3 PWC also requested an objective legal opinion on the contract as a whole and of the provisions included in the Envelope of Liability. They also undertook a detailed assessment of the likely creditor liability for the 2004/05 year, using the July Envelope of Liability, as they were concerned about the effect on the accounts as the 2004/05 costs were not fully known.

6.4 PWC also became very concerned at the time being taken to reach agreement on the internal audit report. The County Treasurer considered that there was a clear risk of severe criticism from PWC if the report was further delayed.

6.5 The County Treasurer also considered that, in the light of significant previous interest, it was appropriate for the issues identified in the audit report to be brought to members at this point. Therefore the final report was issued on 9 September to leaders of the three groups plus the Chair and spokespersons of the Environment O & S Committee as well as to the Director of PTES.

6.6 The internal audit review work was carried out between November 2004 and March 2005 and during that time a number of discussions took place between PTES and Audit. In particular the findings were passed on at an early stage so that PTES were able to take action before the formal report was produced.

6.7 A comprehensive action plan has been produced in response to the recommendations of the internal audit report, the concerns raised by the external auditors and the issues raised in the Jarrett report. Considerable progress has now been made in resolving the issues, as highlighted in Appendix A.

7. PWC Conclusions

7.1 The issue of the final version of the audit report on 9 September 2005 helped to allay the concerns of PWC. As a result PWC only made the following comments in SAS610 report to the Audit Panel on 14 October 2005, paragraphs 26 and 27:

“As part of our audit work we have reviewed the new Highways Maintenance partnership agreement, which the Council has entered into. Whilst we were satisfied that the financial transactions have been accounted for correctly within the accounts we did have concerns regarding the way in which the

partnership agreement has been controlled and managed, including in particular:

- *No one person with overall responsibility for monitoring the arrangements;*
- *A lack of effective management and performance information;*
- *Lack of clarity as to whether the arrangement was delivering the benefits that were originally anticipated; and*
- *The development of a confrontational rather than partnership relationship with the contractor Carillion.*

These issues have been recognised by officers and we understand that work is currently underway to review and strengthen the management and monitoring arrangements.”

8. Relationships with Carillion

- 8.1 Various meetings and workshops were held by PTES in the mobilisation period prior to July 2004 to “kickstart” the contract. Although the main themes were covered, these meetings were not fully successful in developing the partnership and partnering culture that needed to be put in place. Further joint workshops were held during 2004 while the contract was underway. Since the audits, PTES and Carillion have undertaken a number of joint seminars in May and June 2005, facilitated by Dr Neil Jarrett, to address matters relating to partnering, collaboration and continuous improvement. These were attended by managers from WCC and Carillion.
- 8.2 In order to address concerns over the financial aspects of the contract highlighted by the audit report, a joint Financial Management Project Board with Carillion was set up in May 2005, chaired by the Head of Warwickshire Engineering, David Lynn. Broadly, the terms of reference for this group are to resolve the problems identified, by ensuring that WCC receives the information it needs, when it needs it, in order to make the correct payments to Carillion and take appropriate management action where required.
- 8.3 Activity champions have been established by both Carillion and WCC to co-ordinate delivery and develop improvements. In addition a working party has been set up to review ways to reduce management costs.

9. How are Carillion Performing - Improvements Achieved

- 9.1 In assessing performance it is important to recognise where operations are progressing well and where PTES and Carillion have already achieved improvements.
- 9.2 In the summer the Council’s external auditors asked for details of the improvements that had been made since the start of the contract (given the basic requirement in the contract to achieve continuous improvement). Those improvements that would have had the greatest impact to the public are:
- More drainage work has been carried out this financial year due to better programming of the drainage gangs;

- Replacement of road markings following surface dressing was better in year 1 than with WARCO and substantially improved in year 2 with 85% of markings replaced in accordance with the programme.
- Night time surfacing introduced on busy A roads to reduce delays;
- Extra £2 million (funded by prudential borrowing) surfacing carried out.
- Street lighting outages are now comparable to WARCO outages and tall column outages have been reduced due to early evening/night time working which has increased productivity.

10. How are Carillion Performing – Financial

- 10.1 The contract requires targets to be set for work ordered, and costs to be monitored against these targets. Generally targets are based on values submitted by Carillion at tender stage. During the year Warwickshire pays Carillion the costs of the work undertaken. At the end of each financial year the costs under or over target are added together for distribution. If the total costs are lower than the target totals (“contract in gain”), Warwickshire pays half the difference to Carillion. If total costs are higher than target totals (“contract in pain”), Warwickshire deducts half the difference (and a higher deduction rate if the contract is more than 10% in pain).
- 10.2 Early in the contract the costs of the work were, in some cases, substantially above the contract target values. In February it was reported to committee that, as a result of the contract being in pain, payments to Carillion were expected to be up to 2.5% above the contract targets. There is still some uncertainty about the end of year 1 figures (Warwickshire are holding back money until Carillion fully justify all of their claimed costs) but the latest estimate is that the payments might be up to 3.5% above contract targets.
- 10.3 Improvement actions introduced for year 2 are designed to reduce costs to try to ensure that the target values will not be exceeded. At present the cost of most activities appear to be running close to target. Unfortunately the Management (Preliminaries) costs are running above target and the present estimate is that at the end of the year the pain payments across the whole of the contract may be up to 1% above target values.

11. How are Carillion Performing – Cooperation with Warwickshire

- 11.1 In many areas the degree of cooperation between Carillion and Warwickshire reflects and is a continuation of the relationships that used to exist between WARCO and the Warwickshire Client. This was always better in some areas than in others. It is difficult to identify many actions that Carillion management have taken to improve relationships. The biggest influence they have had has probably been the decision to co-locate as many staff as possible. This ensures that Warwickshire and Carillion personnel have to work together and that issues have to be discussed.
- 11.2 A new issue that has caused problems in 2005 is the fact that Carillion submitted a number of unexpected compensation events between February

and Economic Strategy

Shire Hall
Warwick

Appendix A: HIGHWAY MAINTENANCE CONTRACT ACTION PLAN

Part 1: Actions Completed

	Source	Recommendation	Actions taken
1	Jarrett Review Action 1	Appoint a senior manager within WCC client operation to develop and manage implementation of new processes and management controls. The manager should report to Peter Samwell (WCC Project Manager) and supported by an external advisor.	A County Highways Improvement Manager was appointed in January 05. A Consultant (Lean Thinking Ltd) has been used from April to advise and help with the introduction of new processes and management controls.
2	Jarrett Review Action 2	Refocus of the Core Group to manage at a strategic level for the development of collaborative working capabilities and processes through the partnership.	Core Group was re-focused in January 05 to concentrate on strategic level issues, instead of detailed contract delivery issues.
3	Internal Audit Report Action 01	A strategic vision for the future operation of the contract should be developed at a workshop attended by all parties. The workshop should produce a partnering charter, agreed by all, detailing the objectives of the contract and an action plan to move the contract forward and achieve these objectives.	Before the contract began PTES consulted industry experts who advised that one day workshops that produced a partnering charter have limited benefits. A better approach to developing partnering, is to hold a series of partnering activities and workshops with all those involved in the contract. Workshops, get togethers, training sessions etc. have been held, and will continue to be held, regularly throughout the contract. It is acknowledged that these have not been fully effective. A core group awayday is planned for February 06.
4	Internal Audit Report Action 02	Effective budget monitoring arrangements should be introduced.	In year 1 budget monitoring of the contract was hampered by a lack of certainty about the exact costs which were due to be paid to Carillion due to problems with the Carillion cost reporting system and with late submission of compensation events. In addition budget monitoring has an extra complication under the contract due

	Source	Recommendation	Actions taken
			to the pain/gain element of the payments due. New systems have now been introduced to ensure that the year 2 budget monitoring is easier and more accurate. The budget monitoring systems will continue to be reviewed and revised as necessary.
5	Internal Audit Report Action 03	The 2005/06 target prices should be negotiated robustly.	The process that has been adopted for agreeing the targets for 2005/06 has been strictly in accordance with the contract. A complete audit trail showing the relationship between Year 1 and Year 2 targets will be maintained by the Project Manager.
6	Internal Audit Report Action 10 (part)	Labour costs: Excessive working time should be resolved with Carillion.	Internal Audit identified from a small sample of workers for the period up to January 2005 that some workers hours were excessive. These hours worked exceeded Carillion's own rules. This situation was investigated by PTES who concluded that, although the hours seemed excessive, there was no reason to suspect that the hours had not been worked. Working longer than normal hours is fairly standard in the construction industry especially during the summer months. In addition many of the operatives are included on the call out rota for emergencies and winter maintenance, which may require them to work for periods at night as well as in the day. Operatives can sign a derogation to exclude them from the working time directive and most have. Carillion have their own guidance on working hours, that a person must not work more than 120 hours in any two week period and this must include two 24 hour periods of non working. In September 05 Carillion are monitoring overtime hours to ensure that the costs are justified by extra productivity.
7	Internal Audit Report Action 13	Unallocated costs should be resolved with Carillion.	In year 1 the Carillion financial systems contained higher than expected levels of costs that were not allocated to works orders. These included holiday and sickness costs and fuel for vehicles as well as costs which could have been allocated to individual orders.

	Source	Recommendation	Actions taken
	(part)		Considerable efforts were made by Carillion and PTES to allocate costs to work orders wherever possible. Where this has not been possible payments have only been made where evidence has been provided to show that the costs are legitimate costs to the contract. The Year 2 unallocated costs only include fuel for vehicles and PTES believe it is more appropriate for Warwickshire to distribute these costs to budgets/orders rather than Carillion.
8	Internal Audit Report Action 14	All records relating to the procurement process should be held on file in one place.	This issue related to the procurement process, which took place over 2 years ago. At this stage PTES see no benefit in reorganising the procurement files. This issue will be kept in mind for future tendering processes.
9	Internal Audit Report Action 15	All future reports should be dated, the author identified and minutes kept of decision-making meetings kept.	It is agreed that this is good practice and should be adhered to.

Appendix A: HIGHWAY MAINTENANCE CONTRACT ACTION PLAN

Part 2: Outstanding Issues and Actions

	Issue to be resolved	Source	Recommendation	Progress to date and future actions
1	Management	County Treasurers Project Team	Design and implement a performance management framework, which operates at all levels from O&S committee through the management structure.	Design the performance management framework, including what to measure, why, how, monitoring and reporting arrangements and formats, processes for taking action.
2	Management	Internal Audit Report Action 05	That roles and responsibilities of PTES are clearly defined and that effort is put into developing a sound working relationship between the Council and Carillion.	Acknowledge that these roles and responsibilities need reinforcing with staff and the guidance will need reviewing in the light of work carried out by the Project Board. A review of Area Client activities has been undertaken which has commissioned the production of an operation procedures manual for area client staff. Now the contract is well under way, a review of management competency requirements should be undertaken and an analysis conducted to identify any gaps or training needs.
3	Finance General: - Open Book arrangements	Internal Audit Report Action 04 Internal Audit Report Action 06	Finance meetings are held in the spirit of partnering with both client and contractor present. A suitable method for the effective use of open-book accounting and the high-level effective monitoring of costs should be devised.	There are three main financial reporting issues that have been raised in the Audit and Review. <ul style="list-style-type: none"> A. Are the systems reporting the correct costs in a way that Warwickshire can adequately audit B. Are the costs being reported in a timely fashion and in a form that allows comparison with budgets and targets/orders C. Are the costs being reported in a format that will enable Warwickshire and Carillion to set improvement

	Issue to be resolved	Source	Recommendation	Progress to date and future actions
				<p>targets and drive out waste</p> <p>Due to a number of concerns about the Carillion financial systems the Contract Partnering Board agreed to set up a Financial Management Project Board with representatives from Carillion, PTES and Treasurers. The objectives for the group, which first met in May 2005, are 'to resolve the problems being experienced with the financial management information'. Carillion have commissioned an independent financial advisor to help identify how required changes/improvements can be made.</p> <p>Action – The Financial Management Project Board will continue to meet, and will continue to have input from Treasurers, Carillion and PTES, to resolve the financial management information issues. The board will continue to report to the Contract Partnering Board.</p>
4	Finance – A. Are the costs correct?	<p>Internal Audit Report Action 07</p> <p>Internal Audit Report Action 08</p> <p>Internal Audit Report</p>	<p>Independent assurance should be requested of the integrity of SCRAPS.</p> <p>PTES should ensure that there is no double counting of costs in SCRAPS.</p> <p>Overstated costs should be resolved with Carillion</p>	<p>Internal Audit were concerned about the accuracy of the amounts claimed in the Carillion valuations. It has to be accepted that errors have been found within the accounts. Some errors have been found by Carillion, some by PTES based on sample checks and some by Internal Audit. Errors are still occurring and, as a result, each month deductions are made from the amounts claimed by Carillion (payments are made about one month in arrears). PTES believe that the identification of errors shows that the checking procedure is working.</p> <p>Action - PTES will continue to check the costs in SCRAPS as agreed with the Treasurers before the contract began. It had been hoped that these checks would decrease as Warwickshire gained confidence about the accuracy of the</p>

	Issue to be resolved	Source	Recommendation	Progress to date and future actions
		Action 13 (part)		<p>Carillion cost recording system. In fact some apparent overclaims are still being identified. PTES and Treasurer's will need to review the checking arrangements.</p> <p>Action - Where Carillion are unable to satisfy Warwickshire that the costs reported are legitimate costs to the contract, deductions will continue to be made from the monthly valuations until adequate proof is provided (time sheets or receipts).</p> <p>Action - At present (November 2005) the year 2 management costs being claimed are higher than predicted and PTES will investigate these to ensure they represent the proper costs. Similar investigations will take place, as they have to date, when any future anomaly is identified.</p>
5	Finance - B. Monitoring costs	<p>Internal Audit Report Action 12</p> <p>Internal Audit Report Action 11</p> <p>Internal Audit Action 10 (part)</p>	<p>Material plant and other costs: The effective monitoring of material and plant costs and the treatment of idle plant time should be ensured.</p> <p>The effective monitoring of sub-contractor costs should be resolved with Carillion.</p> <p>Labour costs: The treatment of idle time should be resolved with Carillion.</p>	<p>As has been done from the very start of the contract PTES will continue to monitor all known costs and compare these with targets and budgets. As mentioned above there have been issues about whether costs have always been properly recorded in the SCRAPS system. This is one of the issues being looked at by the Financial Management Project Board.</p> <p>The cost information under this contract shows the breakdown in costs, including elements of unproductive and idle time. This is important information which will help in the process of identifying and driving out waste from operations. PTES believe that unproductive and idle time cost information should not be lost by requiring Carillion to distribute it across the works completed.</p>

	Issue to be resolved	Source	Recommendation	Progress to date and future actions
6	Finance - C. Are costs being reported in a form that will allow waste to be driven out?	Jarrett Review Action 5	Review requirements of the SCRAPS cost reporting to meet the objectives of the contract. The objectives should be open book transparency so that the team can set improvement targets and drive out waste.	Improving efficiency and effectiveness by driving out waste is, in the view of PTES, the real challenge that the contract now faces. Sufficient information was available from year 1 to allow Carillion and Warwickshire to know where the biggest improvements were required in year 2. Attempts are being made to simplify the cost reporting system by costing to gangs rather than works orders in instances, such as patching, where many small orders are placed. The implementation of this is being delayed by difficulties with making changes to the SCRAPS system.
7	Continuous Improvement			In the view of PTES, the following actions are those that are required to ensure that the contract is a success. Assuming that the cost reporting systems are found to be adequate, the investment made to date in the contract will only be repaid if the costs can be reduced throughout the contract by driving out waste. Waste exists in the way in which the work is specified and identified by Warwickshire as well as the way in which the maintenance work is carried out. The actions are designed to increase knowledge about how improvements can be made and to ensure that processes are put in place to identify and drive out the waste.
7.1	Continuous Improvement	Jarrett Review Action 3	Undertake a study to redesign processes and define roles and responsibilities of client and contractor staff in each of the key activities of the contract.	This is a major activity and has been split into manageable elements. To date changes have been made to the identification and organisation of surface dressing and to the planning of drainage work. Also a redesign of the process for ordering and organising patching is nearing completion. A more comprehensive review of the management

	Issue to be resolved	Source	Recommendation	Progress to date and future actions
				structures has been started by Warwickshire and from September will be widened to include Carillion.
7.2	Continuous Improvement	Jarrett Review Action 4	Put in place arrangements including training and support for client and contractor staff.	Training sessions have been held by Neil Jarrett from CWC, and by Lean Thinking Ltd
7.3	Continuous Improvement	Jarrett Review Action 6	For maintenance, document a process for planning and implementation which states who is to be involved and when and outputs including designs, cost plans and value and risk registers.	In July 05 a county highways area manager was seconded to identify and implement best value in routine highway maintenance activities. The issue for PTES and for Carillion is that improvement is not yet seen as the responsibility of every manager. Lean Thinking Ltd. are being used to introduce practical examples of ways to identify waste and hence raise the profile of improvement in managers minds.
7.4	Continuous Improvement	Jarrett Review Action 7	Develop a new project incentivisation process for structural maintenance that drives integration and improvement over the long term – this is likely to be based on ‘capable’ clients setting a brief and budget.	Limited progress to date. Warwickshire have a concern that scheme cost reductions will produce road surfaces that fail before their 25 year design life. Such problems may not be known until well after the end of the 7 year contract. Carillion have recently appointed a person with extensive experience in recycling which should help in the identification of improved processes.
7.5	Continuous Improvement	Jarrett Review Action 8	Establish improved management controls for the routine maintenance work. Productivity measures should be introduced and feedback on performance should be ongoing and	Good progress made. Lean Construction Ltd has been working with our improvement officer to introduce productivity measures and management control.

	Issue to be resolved	Source	Recommendation	Progress to date and future actions
			should be shared by the entire client and contractor team to drive improvement.	
7.6	Continuous Improvement	Jarrett Review Action 9	Agree a joint procurement strategy for key suppliers. Ensure suppliers open books and report activity costs.	To date Tarmac are the only supplier with an open book agreement. Delays are partly due to the concerns about the accuracy of open book reporting.
7.7	Continuous Improvement	Jarrett Review Action 10	Teambuilding for WCC and Carillion staff together with monitoring mechanisms to ensure that the planned changes in process and behaviour are delivered.	Partnering workshops have been held. Staff relocations have ensured that more Carillion managers sit at desks close to their equivalent Warwickshire manager thus increasing joint working.
7.8	Continuous Improvement	Jarrett Review Action 11 Internal Audit Report Action 09	Develop a robust improvement process. Build on the activity co-ordination groups but establish robust improvement procedures supported by data from KPI's and work-study. The current KPIs may need to be rationalised to prevent them becoming a data collection exercise. Performance monitoring: A robust process should be developed for setting and monitoring KPIs as the basis for continuous	New KPI's have been agreed. A range of actions have been taken to ensure that improvement and driving improvement becomes part of the day job for all employees. An issue to be resolved is that the contract KPI's are primarily designed to ensure that the quality of work is maintained. They are not generally designed to measure contract improvement. Improvements arising from driving out waste need to be measured by cost or unit cost or rate of working (productivity). And therefore productivity PI's will need to be identified and reported. A high level cost performance indicator is the contract pain/gain amount.

	Issue to be resolved	Source	Recommendation	Progress to date and future actions
			improvement.	
7.9	Continuous Improvement	Jarrett Review Action 12	Improve the focus of the activity groups and support process improvement with performance data collection. Activity sampling should be carried out to assess the productivity of direct labour and opportunities for improvement.	Particular action has been taken with surface dressing, patching, structural maintenance, drainage, street lighting and ART (daywork) gangs to improve performance through performance data collection.
8	Compensation Events	County Treasurers Project Team	PTES should maintain a register of all compensation events requested by either party and keep records of latest position, date resolved and decision reached. This will help to ensure that CEs are effectively managed and will help PTES to monitor whether Carillion is raising CEs as soon as they are aware of them, rather than leaving them until the year-end, delaying proper closure of the accounts.	Set up a Compensation Event Register and maintain appropriately. Compensation Events should be reported to the Partnering Board quarterly and to O&S committee as appropriate.
9	Financial Forecasts	County Treasurers Project Team	To ensure Core Group is managing the financial position at a strategic level, financial forecast information should be revised to facilitate strategic decision-making. Core Group should be managing the	Set up financial forecast reports, which provide appropriate strategic financial monitoring information for both Core Group and the Partnering Board. Ensure that financial monitoring is a standing item on both agendas. Use best practice corporately for reporting formats & frameworks.

	Issue to be resolved	Source	Recommendation	Progress to date and future actions
			contract, including the financial position, at a strategic level. The activity forecast information that Core Group currently receives is in too much detail and not fit for purpose for strategic management purposes.	

Appendix B – IMPROVEMENTS IN OTHER AREAS

- 1.1 **Lean Construction** – Because Carillion were not taking sufficient action to instigate improvement, Warwickshire are employing a consultant, Lean Thinking Ltd., to help identify where improvements can be made. Their philosophy is that normal construction activity is generally less than 50% efficient. Looking at operations, and identifying the waste in those operations, is a proven method of bringing about improvements. Examinations of the outputs of patching and ART gangs have been looked at to date and a start is being made on street lighting activities. Excess travelling and inefficient ordering of work are two of the main causes of inefficiencies being tackled at the moment.
- 1.2 **Improvement Officer** – The suggestion for an improvement officer was made in Dr Jarrett's report. At present the improvement officer is working with Lean Thinking Ltd to help in the identification of inefficiencies. The aim is that, once the Lean Thinking Techniques are understood, the improvement officer will carry on with reduced or no support from the consultant.
- 1.3 **Area Manager Secondment** – When possible improvements have been identified, there can be delays in implementing changes because personnel are busy with the day job. To ensure that improvements are made to routine maintenance activities an Area Manager has been seconded to work on the introduction of improvements. The first activity, which has been tackled, is patching.
- 1.4 **Financial Systems Review** – For the contract to operate as intended, Carillion's financial systems should accurately record the costs of activities. The financial information is then used to help identify where improvements might be made. Although the financial systems introduced provide much more detailed financial records than have been available in the past, the information is not as accurately identified as had been hoped. One consequence of this is that Warwickshire are holding back money that has been claimed by Carillion because the records do not adequately show how the payments relate to work legitimately carried out on the contract. To ensure the financial systems improve, a joint Warwickshire and Carillion team has been working to identify the priorities for improvement and to ensure that improvement actions are implemented.
- 1.5 **Performance Indicators** – Performance indices were introduced and monitored in the first year of the contract but owing to the concentration of resources on solving day-to-day problems the financial incentivisation element was not applied. In the current year of the contract a number of performance indices have been changed to concentrate on improving areas identified as providing poor service delivery such as completion to time and programme of structural maintenance schemes, surface dressing, road markings, gully cleansing and verge mowing. Results to date are showing significant improvements to these services. In addition a number of performance indicators relating to financial issues have been introduced to improve financial reporting.

- 1.6 **Activity Coordinators** – Each activity identified under the contract, e.g. ART general maintenance, Patching, Surface Dressing etc. has been designated a representative from both PTES and Carillion to act as coordinators on any issues and improvement initiatives relating to the activity. The Activity Coordinators work in close harmony with each other, their counterparts within County Highways and the Improvement Manager to resolve problems and introduce improvements. This initiative has led to improvements in the planning and undertaking of safety inspections, surface dressing, road marking, -structural maintenance, drainage works, patching, winter maintenance and verge maintenance and is continually evolving.