

## **Appendix B**

### **Service Delivery Review Phase 2 Model Descriptions**

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## **Model Description**

### ***Improved business as Usual***

#### **The model in action – Herefordshire**

The improved business as usual (IBAU) option is based on the current service delivery arrangements without modification.

A range of services including highways routine maintenance, programmed highways works, grounds maintenance, street cleansing, toilet cleansing, recycling, street lighting, courier, printing, vehicle maintenance, sign manufacture, building maintenance, building cleaning and event catering are delivered by Amey Wye Valley Limited, a joint venture company owned by Amey Infrastructure Services Limited (80%) and Herefordshire Council (20%).

Consultancy services are delivered under a separate contractual arrangement with the Owen Williams division of Amey. The range of services include policy development, design and implementation, including transportation and traffic engineering, management and control; highway design and management; materials testing; general infrastructure development; property/architectural services and other associated technical services.

The contractual arrangements are based on the New Engineering Contract (NEC) Engineering and Construction Contract; Option A, Priced Contract with Activity Schedule, for the Service Delivery Agreement with Amey Wye Valley Limited and the NEC Professional Services Contract for the delivery of consultancy services by Owen Williams Limited. Both contracts include the partnering provision (Option X). These arrangements provide no significant incentives to drive productivity improvements, nor do they allow any significant sanctions to be taken for non-delivery.

Both contracts are for an initial ten-year term with an option to extend for a further ten years. Overall contract management for both rests formally with a single individual on the client side but in practice a large number of client officers are involved in ordering work and monitoring activities conducted under the contract and agreeing the amounts to be paid for specific work items.

Until the commencement of the current review a board, which comprised directors from the parent organisations, gave strategic direction to this partnership. The board was supported by a partnership project management team, which comprised senior managers from each of the partners.

This model is intended to overcome some of the disadvantages of the existing arrangements.

#### **Principles underlying the analysis**

This section describes the principles underlying the IBAU model. These have been used to develop the analysis of the model's potential to meet the Herefordshire service delivery review objectives.

The features of the model that have been used as assumptions in analysing how it meets our objectives are:

- Modifications to the contract would be negotiated to allow for a number of incentive-based adjustments to the payment mechanism as well as re-aligning the rates with the actual costs of service provision

- The current schedule of rates' deficiencies would be addressed to ensure that overall operating margins are maintained but individual rates are adjusted such that each business area achieved broadly the same percentage margin and prices better reflected the costs of delivering the service
- A requirement on the contractor to finalise the account on any particular work item within any particular timescale
- Market testing for value-for-money
- Incentivising lump sum payments to the contractor to improve performance
- Alignment of cost efficiency rebates with Gershon efficiency increases required of the Council
- Provide specific links between performance and payment
- Completing the schedule of rates
- Clarity over precisely what constitutes routine and reactive works, and what constitutes programmed work
- The contractor's fee percentage arrangement to be modified to provide an incentive to drive down the costs of externally sourced work
- A strengthened and less diffuse client role
- A commitment to, and investment in, closer partnership working

## **Strengths and weaknesses**

### **Strengths**

- Known model requiring limited renegotiation and only modest change to the Council's organisation
- A strengthened and focused client team should overcome most of the areas of disagreement inherent in the current arrangements
- No TUPE

### **Weaknesses**

- Although improved, still complex accountability for service delivery

## ***'Managing agent contract' (MAC) model***

### **The model in action – Bedfordshire Highways**

The MAC model is based on Amey's partnership with Bedfordshire. This has been running since October 2005 and is considered by both Amey and the Council to be a success. The partnership combines the roles previously undertaken by the council's highway asset and network management teams with term maintenance service delivery.

Before 2005 the council's highways had become an important concern for its citizens. The quality of the roads was perceived to be poor and the council decided that it needed to take action. The action consisted of letting the contract for highways services to Amey and a substantial increase in funding (approximately £4m).

A previously underachieving operation has been transformed into one that is excelling. The council has gone from one to three stars and Bedfordshire Highways has been an important part of this transformation. Although the improvement has been achieved with the injection of extra cash, the investment has been well spent, the performance has improved, relationships with local communities are good and the partnership is clearly working.

This model delivers more efficient services – better services for less – by putting the service delivery into a single organisation. Amey will own the service delivery end to end and will take ownership of meeting the performance targets.

The benefit to Amey of meeting the performance targets is an extension of the contract. In Bedfordshire the contract was originally let for five and a half years. The first extension of 12 months was awarded in July 2007 reflecting the successful start to the partnership.

An important part of Amey's service contracts is the Watchman scheme. This scheme identifies an individual whose role is to ensure that best practice is spread within the service delivery organisation and across Amey. The role is also responsible for developing and improving relationships with community groups.

The partnership is controlled by the Partnership Network Board. This includes the cabinet member, the Director of Environment, the Watchman and other representatives from Amey and the council. The board is responsible for setting and assessing priorities and performance targets.

The service advisory group produces monthly performance reports showing progress towards targets.

## **Principles underlying the analysis**

This section describes the principles underlying the MAC model. These have been used to develop the analysis of the model's potential to meet the Herefordshire service delivery review objectives.

The features of the model that have been used as assumptions in analysing how it meets our objectives are:

- The organisation has been divided into two groups: **service delivery** roles and **foundation roles** - policy development, strategy, contract management and those roles that the council wants or needs to perform itself
- This structure has been assumed for each of the services included in the contract (Highways, Parks and Countryside and Property Services). In Bedfordshire Amey only deliver Highways and, as Bedfordshire is not currently a unitary authority, the range of services within Highways is not as wide as in Herefordshire. The risk that the model is not suitable for all service delivery areas has been mitigated by involving both experts from Amey and relevant Herefordshire Council staff
- All service delivery staff will be employed by Amey
- All foundation roles will be employed by Herefordshire Council
- Service delivery staff currently employed by the council will be moved to the new service delivery organisation
- The interface between the service delivery and foundation organisation will be set at the strategic level i.e. the council will be responsible for objectives and strategic plans and Amey will be responsible for planning delivery.

- A contract management team will be created to ensure quality and value for money and police the terms of the contract
- Service performance success will be measured by a set of performance indicators agreed between the Council and Amey – these may change over time by agreement of the controlling board. **FURTHER DETAILS OF PERFORMANCE INDICATORS USED TO BE INCLUDED IN FINAL REPORT**
- The council will be responsible for defining and prioritising the performance indicators and ensuring that they are in line with its priorities
- Successful delivery will be rewarded by 12 month extensions to the contract – the current contract will have 5 years to run in September 2008
- The foundation staff remaining within the council will define strategy and manage the contract

## **Strengths and weaknesses**

### **Strengths**

- Clear accountability for service delivery
- Single, integrated service delivery team
- Governance structure that encourages member involvement
- Strong relationships with local communities via watchman and area teams and dedicated budgets for parish councils

### **Weaknesses**

- Limited incentives for good performance – the contact extension is either granted or not, there is no way of giving a reward that is in proportion to the level of achievement
- The process of tupe-ing staff could be disruptive although Amey has significant experience of successful TUPE transfers, over 6000 of their 9000 staff having transferred from the public sector
- Transferring some staff from the council could lead to a loss of knowledge that would limit options for delivery in the future
- Some staff may not wish to transfer to Amey and may choose to seek alternative employment outside of the partnership

## ***Integrated services model***

### **The model in action – Gloucestershire Highways**

The integrated services model is based on Gloucestershire County Council's partnership with Atkins. This is in its second year and is considered by both partners to be a success.

A number of highways-related contracts were due for renewal and the county council wanted to respond more effectively to changing national and local drivers by developing the highways service. The council used a negotiated tender process and were looking for a single provider of services, flexibility in contract arrangements and an opportunity to have a fresh look at service provision. Its objectives were:

- To put GCC as a top 5 transport authority in England

- ❑ Safer Roads, Better Journeys
- ❑ Serve the people that live and travel in Gloucestershire
- ❑ To provide:
  - Customer focussed service delivery
  - Service excellence at an affordable price
  - Continuous improvement
  - Innovation
  - Safety for all

The integrated service brought together people from Halcrow, Ringway, Gloucestershire County Council, Gloucester City Council, Atkins and Cheltenham Borough Council who are either employed by Atkins or the County Council.

There are two intriguing aspects to the partnership: an integrated service delivery team and an integrated management structure.

Gloucester Highways has a mixed staff of Atkins and Gloucestershire County Council employees. Some jobs are specifically identified as council jobs but, in the main, joint teams are encouraged and valued.

The manager of Gloucestershire Highways manages this joint team and is responsible to GCC for performance and to Atkins for profitability.

The council has recently achieved a 4 star CPA rating and its Environment service score has improved from 2 star in 2005 to 4 star and Gloucestershire Highways has been an important part of this improvement.

**Key features of the contract are:**

The contract is based on an NEC contract initially let for 5 years with extensions to 7 and 10, performance a key determinant. The deal features term maintenance work and schemes up to value of £500k services delivered at cost. Delivery at cost is demonstrated by open book accounting. Profit is only earned through the achievement of targets. These are agreed annually and included in the service delivery plan. Profit is earned by meeting strategic goals and operational performance measures:

- ❑ strategic performance measures include:
  - User satisfaction with the network
  - User satisfaction with the service
  - Reduction in KSIs – people and children
  - Hit LTP targets and APR target score
  - BVPI scores for road and footway condition
  - Deliver Gershon efficiency savings
- ❑ 26 operational performance measures cover:
  - Predictability

- Serviceability
- Safety
- Sustainability
- Customer Satisfaction
- Culture

Each performance measure has a payoff curve, which is designed so that achieving the required level of performance is stretching.

There is no penalty for failure except loss of profit.

Targets can be reviewed and changed to reflect changes in circumstance (e.g. responding to major emergencies such as the flooding in 2007).

There is a pain/gain mechanism with target prices which are updated to reflect any proven efficiencies.

**Management arrangements are:**

Single manager for integrated service – three-way contract (council and contractor both parties), seconded to council

- responsible to the contractor for profitability and to the client for performance - if the service plan is constructed correctly these objectives should be aligned
- council head of service
- member of directorate management team
- subject to all the requirements of council (e.g. reporting to cabinet/scrutiny)
- line manages both council and contractor staff (circa 400)

Service plan the key delivery mechanism for the integrated service and reward mechanism for the contractor

- objectives and targets set by a supervisory board (council cabinet members, council director, contractor director), but included in contract for year 1
- uses council performance management system
- the construction of the service plan is crucial

Contract management resource is small - ensuring that the contract terms are being followed, that the mechanisms are working and monitoring performance

This model delivers more efficient services – better services for less – by establishing improvement targets for service outcomes and cost.

**Principles underlying the analysis**

This section describes the principles underlying the integrated services model. These have been used to develop the analysis of the model's potential to meet the Herefordshire service delivery review objectives.

The features of the model that have been used as assumptions in analysing how it meets our objectives are:

- There will be a management structure that integrates the Contractor's general manager and Council's service manager roles with all staff reporting to this role. Staff would be contracted to both Amey and the council by virtue of their original employer or personal choice.
- The rest of the organisation has been divided into two groups: service delivery roles and foundation roles - policy development, strategy, contract management and those roles that the council wants or needs to perform itself
- In Gloucestershire the service only delivers highways and, as Gloucestershire is a county council, the range of services within highways is not as wide as in Herefordshire.
- All staff will retain their current employer
- The interface between the service delivery and foundation organisation will be set at the strategic level
- A small contract management team will be created to ensure quality and value for money and police the terms of the contract
- Services will be delivered at cost
- Service performance success will be measured by a set of performance indicators agreed between the Council and Amey – these may change over time by agreement of the controlling board
- The council will be responsible for defining and prioritising the performance indicators and ensuring that they are in line with its priorities; performance indicators would have thresholds identifying unacceptable levels of performance and exceptional levels of performance
- Achievement of levels of performance will be rewarded by payment of profit and exceptional performance by 12 month extensions to the contract – the current contract will have 5 years to run in September 2008
- The foundation staff within the council will define strategy and manage the contract

## **Strengths and weaknesses**

### **Strengths**

- Clear accountability for service delivery
- Single, integrated service delivery team
- Governance structure that reflects that within the Council
- Relationships with local communities and parish councils reflects that of the Council
- Good incentives for performance – in proportion to the level of achievement

- No requirement to tupe staff

### **Weaknesses**

- More HR support would be required
- Integration could be slower than through TUPE
- Amey performance will depend on mixed teams including council staff
- Works paid for at cost does not drive efficiencies
- Achieving cultural change could take longer

### **Method**

#### ***Improved business as usual***

The improved business as usual model will include:

- Those savings identified as part of the service delivery review that do not depend on the delivery model
- Any savings that can be made as a result of agreed changes to scope
- Any other savings that can be made by improved implementation of the current arrangements – potentially by implementing bonuses and penalties to encourage good behaviour
- Service delivery improvements from the ten improvement tasks

#### ***MAC***

A feasible organisational structure has been created. This structure has been developed jointly by Herefordshire Council and Amey in consultation with the relevant Heads of Service.

This process has been followed to ensure that the proposed structure is capable of delivering the services as now but with an integrated service delivery organisation. An appropriate level of contract management has been included in the costing.

The integrated services model will include savings and service improvements identified in the business as usual together with:

- Changes in staffing levels identified in the analysis of organisational structure
- Improvements expected from the watchman scheme
- Reinvestment of any savings above those required by the service delivery review
- Better alignment of service delivery with service objectives through more effective and more flexible performance management

#### ***Integrated Services***

The differences between the MAC model and the integrated services model are:

- A mixed staffing model
- An integrated management structure

The analysis therefore uses the analysis of the service delivery organisation created for the MAC model. To this the following elements have been added:

- Additional HR support for the mixed staffing model
- Integrated management structure replaces separate Amey and council structures
- Different contract management structure may be required