



MSF1

Performance & financial interim report

2010 - 2014

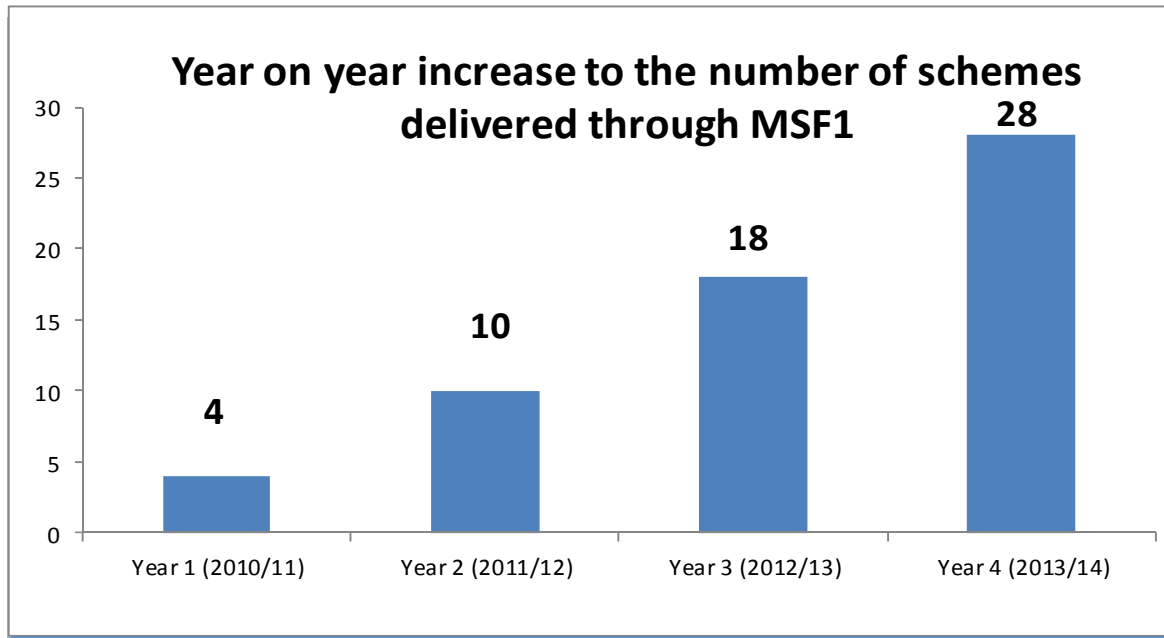
John Hooper
MHA Framework Manager

“The framework will deliver 60 schemes over its lifetime”

“£6m savings over the first three years of the framework”

“Thirteen MHA members have used the framework”

MSF1 scorecard



“Nine new apprenticeships have been established”

“11.2% savings for projects within the range of £1m-£5m”

“Fifty-three employees started NVQ qualifications”

“£250m of construction works delivered through the MSF1”



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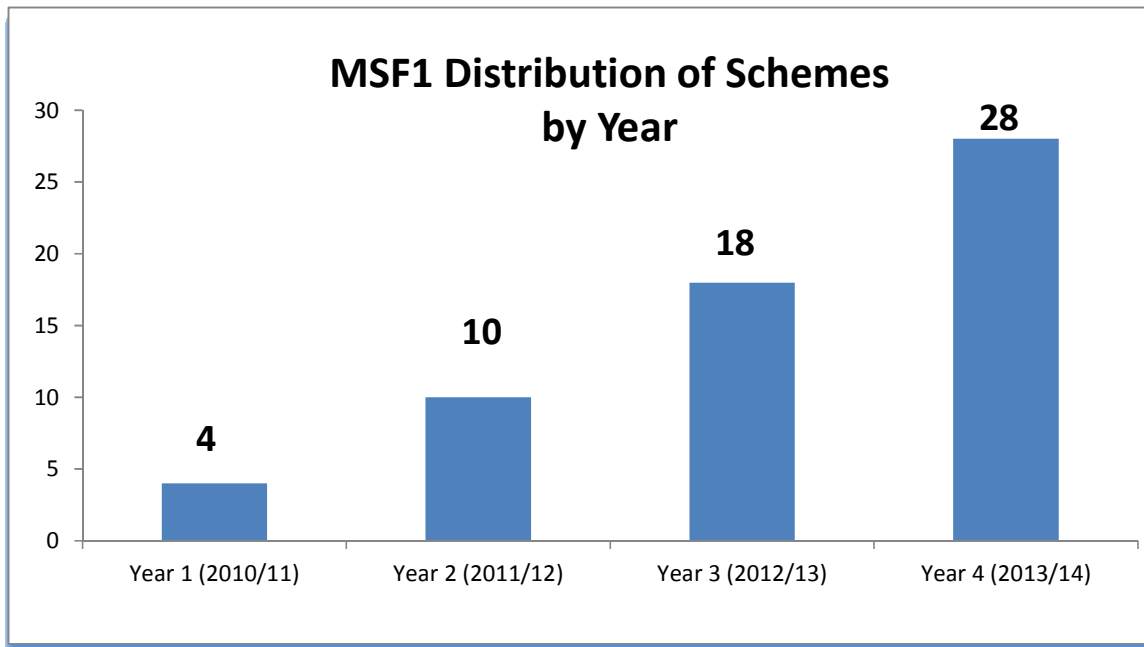
Introduction

The medium schemes framework (MSF1) began on the 12th April 2010. This is the first framework developed by the Midlands Highway Alliance specifically for the delivery of projects by member authorities up to a value of £12 million. The contract initially let for three years has been extended to four years, accordingly after 11th April 2014 no further works packages will be let under this contract. Because of the success of MSF1 a replacement contract has been developed, MSF2 for the delivery of projects up to £25 million.

This report compiled at the beginning of March 2014 reviews the information available for MSF1 to date. Given that only half the MSF1 projects have currently been completed, this is a preliminary report which will be repeated when further information is available.

The table below summarises the projects which are being delivered by MSF1 (NB year 4 is a forecast with 1 month still to go).

GRAPH 1



The MSF1 contractors are listed below:

Balfour Beatty

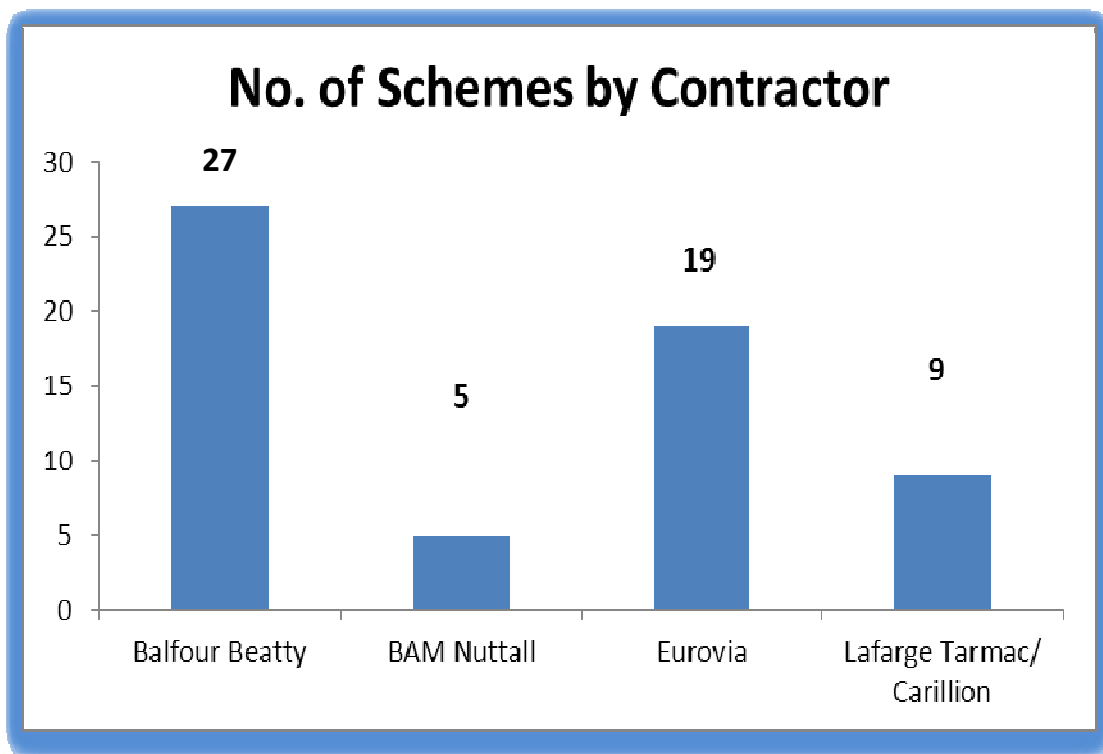
BAM Nuttall

Eurovia

Lafarge Tarmac Carillion

Works have been awarded by a combination of direct call-off based upon information obtained from the initial tender exercise, and further schemes specific mini – competitions. (Approximately 50:50 split). The distribution of works between the four contractors is shown below.

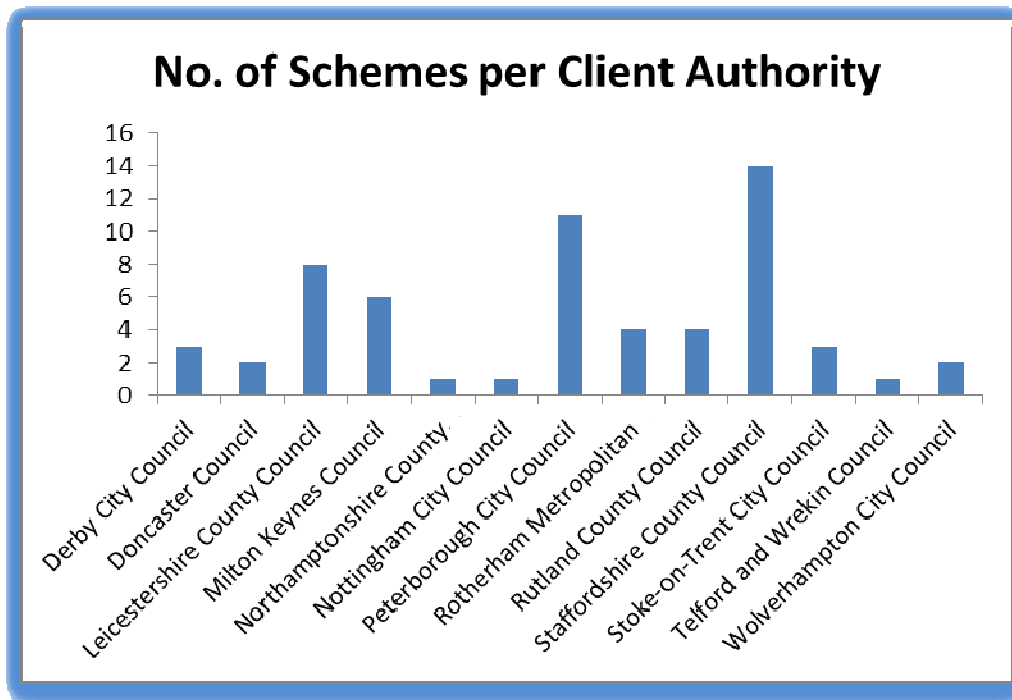
GRAPH 2



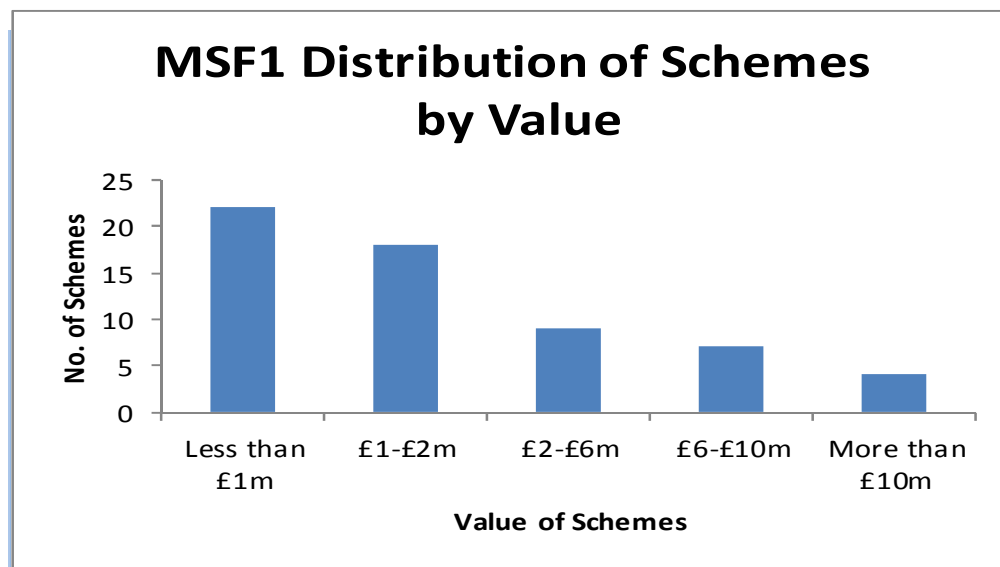
From the current MHA membership thirteen out of seventeen local highway authorities have chosen to use MSF1 for the delivery of at least one of their capital projects, as shown below.

Projects delivered using the framework have ranged in value from £100,000 to over £10 million. The distribution by value is also shown below. The estimated total outturn value of works delivered through this framework is expected to approach £250 million.

GRAPH 3

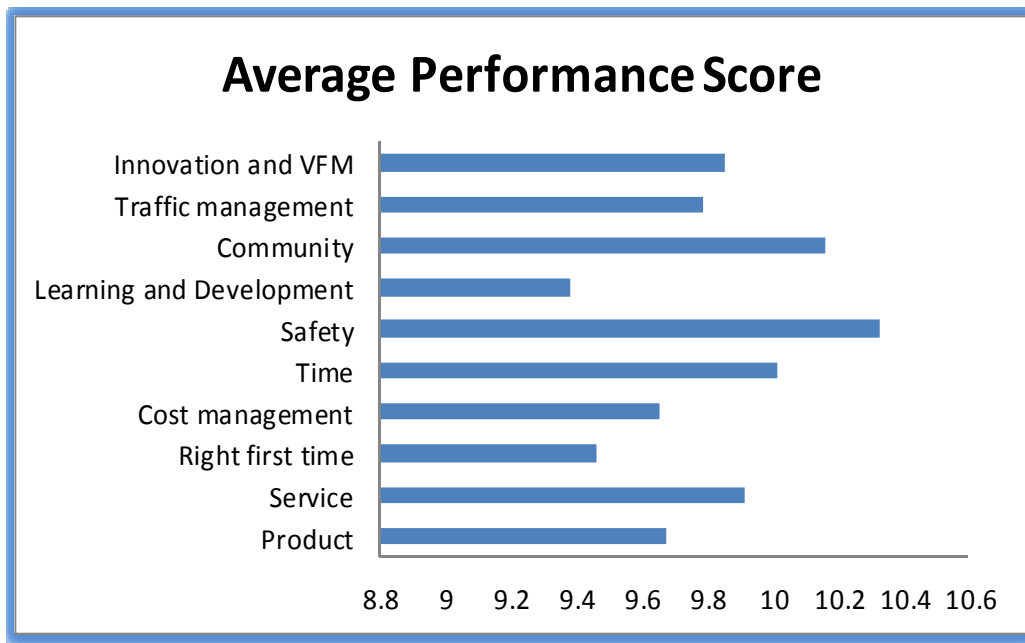


GRAPH 4



Performance Reporting

GRAPH 5



Performance data has been provided from seventeen schemes all at the final account stage for this report and so all the data here refers to schemes completed prior to May 2013. On a further two schemes the commissioning authority chose not to use the performance toolkit.

As can be seen from the chart above, the average performance scores have been very positive; all four contractors have increased their own overall performance score during the framework.

Scores of 8, 9 or 10 represent satisfactory performance and clients are encouraged to reflect exceptional performance by scoring 11 out of 10 when justified. Comments listed below reflect the generally high levels of satisfaction reported.

Product; "The site was handed over at completion date with no outstanding defects and all landscaping completed with grass verges already having established growth."

Product; "Generally very good quality some remedial to be completed."

Service; “Very swift start achieved, handover dates met, very flexible approach despite the wettest weather on record. Excellent relationships for collaborative working and good management of the supply chain.”

Cost Management; “Early Warning Notices and Compensation Events all presented and agreed in a timely manner.”

Further detailed information has been provided later in this report on the excellent safety record that has been achieved and also on the introduction of Employment Skills Plans to the framework. Particular note should also be made of the measures taken by all of the contractors to mitigate the effect of the works on the local community.

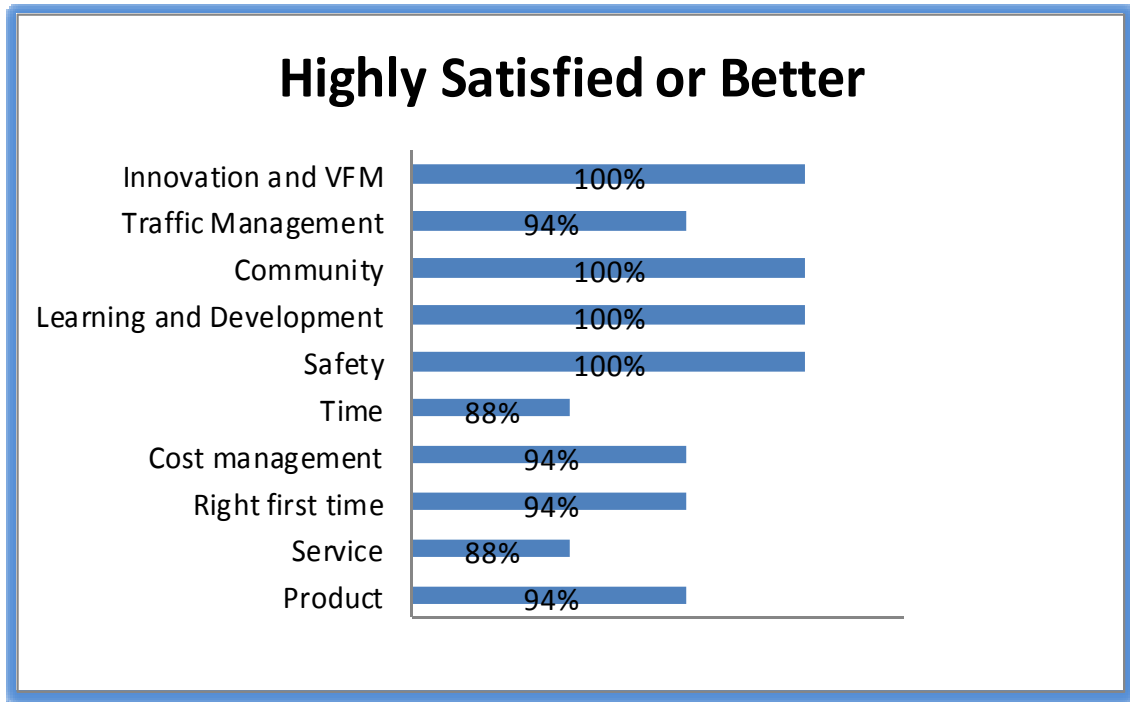
Community; “Considerate Constructor score of 38/40 Excellent - This is an exceptionally considerate site and congratulations are due to everyone involved. Open day with integrated team before works commenced, on-going positive feedback from Parish Council and weekly surgery at site office to allow issues to be identified and discussed by local community.”

Community; “Good liaison with the market traders - kept informed throughout the contract. Good communication with the highways team.”

Community; “Generally good communication with businesses and stakeholders.”

Capturing performance data of this kind allows for on-going sharing of best practice with the aim of continuous improvement. The alternative presentation of the same data shown below focuses on the areas for improvement. A score of 88% equates to 15 out of 17, or two projects where the clients expectations have not been met. Understanding these events will allow steps to be taken to improve future performance.

GRAPH 6



Product; “Inspection and as-built records not received to date.”

Service; “Forward planning lacking - early warnings and communication of changes sometimes late or delayed.”

Service; “Unfortunate changes to site staff required.”

Right first time; “Unacceptable amount of defective work on surfacing.”

Safety

The MSF1 has achieved an excellent safety record. The total number of man hours worked to date on the framework is 1.48 million across 48 schemes that are either on-going or complete.

Only one of the construction projects has had a reportable accident which has resulted in an accident frequency rate of 0.07.

To provide some context a rate of 0.07 represents:

- A record that is twice as good as that delivered on the Olympic park development
- A record that is less than a fifth of the construction industry average

Since the last recorded accident 630,000 man hours have been worked. This outstanding performance has been achieved through a combination of factors, many of which stem from the use of Early Contractor Involvement (ECI), a key feature and benefit of delivering work through the MSF1. The use of ECI has ensured that:

- Schemes are planned and coordinated efficiently
- Buildability reviews are undertaken and safer alternatives are identified
- Sensible mobilisation periods are built into the delivery programme
- The use of penetrating radar to identify underground apparatus has become an established process and it is only possible when, through the ECI period, access is granted to the working area in advance of works starting.

Safety; “No recorded LITT or RIDDOR accidents/incidents. Good near miss recording culture on site.”

Safety; “Very good control of a difficult operation, high standards maintained throughout.”

Employment Skills Plans (ESP)

The recently introduced client based Skills Academy approach to the ESP has established targets based upon the value of each project. There is an acceptance that schemes of less than £1 million and relatively short duration will not normally be able to establish ESP of their own. Currently the MSF1 has thirteen projects with an ESP in place together based upon (Construction Industry Training Board) CITB industry wide guidelines these projects have targets for the full range of Skills Academy objectives.

Some of the achievements to date include:

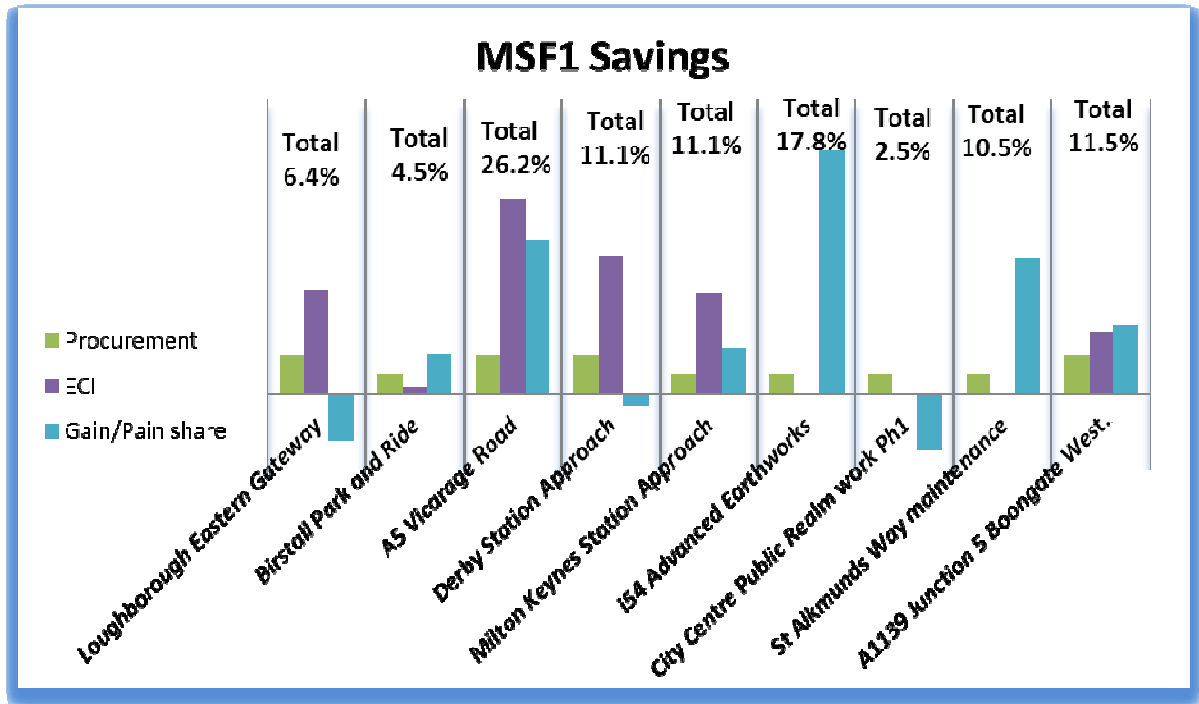
- 4 permanent jobs have been provided in local communities
- 53 employees have started on NVQ qualifications
- 9 new apprenticeships have been commenced
- Over 150 school pupils have visited MSF1 construction sites

Financial reporting

This report seeks to identify savings which have been achieved on the thirty two projects which have started on site during the first three years of this framework. Works which started on site during the current year 2013/14 have not been included since most are still under construction. Of the thirty two projects commenced, twenty nine have been completed to date and twenty final accounts have been agreed. Final accounts have typically been agreed within six months of works finishing with no on-going financial disputes.

Savings have been identified in procurement, design and construction phases of each project. Whilst initial client budgets have not been routinely made available, increases to anticipated expenditure have been recorded and are further analysed later in this report, alongside the savings that have been achieved. A representative sample of projects with associated breakdown of savings achieved is shown in the table below. The average overall saving for each of the nine projects reported is 11.2%.

GRAPH 7



Procurement savings

Work originally carried out by Peterborough City Council and later validated by Collaborative Working Centre (CWC) suggests that the cost of procuring an individual highway contract by a member authority may be as high as 3.4% of the works value. Based on this figure the use of the framework by member authorities suggests a collective saving in procurement costs alone of £2.4 million (first three years only) after deducting the payment of fees to the MHA.

However with the exception of the Peterborough work it has been difficult to obtain comparative data for the cost of procuring stand-alone highway contracts. The actual cost of procurement has been challenged by a number of prospective members and the procurement savings achieved will be further reduced by the cost of mini tenders which have been used on approximately 50% of projects rather than using the direct call-off approach which would maximise the savings. Nevertheless, the individual procurement savings shown for each project in the table above are felt to be a reasonable estimate of the savings made by each client authority.

ECI savings

Throughout the design phase of each project, during which the initial target price (“tender price”) has been developed, the framework has facilitated an increased involvement from the contractor. During this period usually referred to as ECI (Early Contractor Involvement) the framework contractors have contributed additional resources to the planning, programming and buildability of the works. This contribution has identified savings in the construction costs of the scheme, which have been recorded within the “savings register”. These savings, which have been agreed prior to target price being agreed, are “non-contractual” and so are fully realised by each client authority.

Gain/pain share

During the construction phase the client authority enters into contract with the selected framework contractor. The form of contract is an Option C Target Cost Contract under the NEC Engineering Construction Contract 3rd Edition.

A target cost is a genuine pre-estimate of the most likely outturn cost for the project, as defined in the contract documentation. The cost-reimbursable payments to the contractor are made on the basis of the contractor's accounts and records, provided to the employer for inspection on an 'open book' basis. At the end of the project, the final target cost, which is the original target cost plus any agreed changes, is compared to the actual cost expended by the contractor. If the actual cost is lower than the target cost, a saving has been made and shared between the parties on a pre-agreed percentage basis – referred to as 'gain share'. Conversely, if the actual cost is higher than the target cost there has been an over-spend, shared between parties on a pre-agreed percentage split – referred to as 'pain share'.

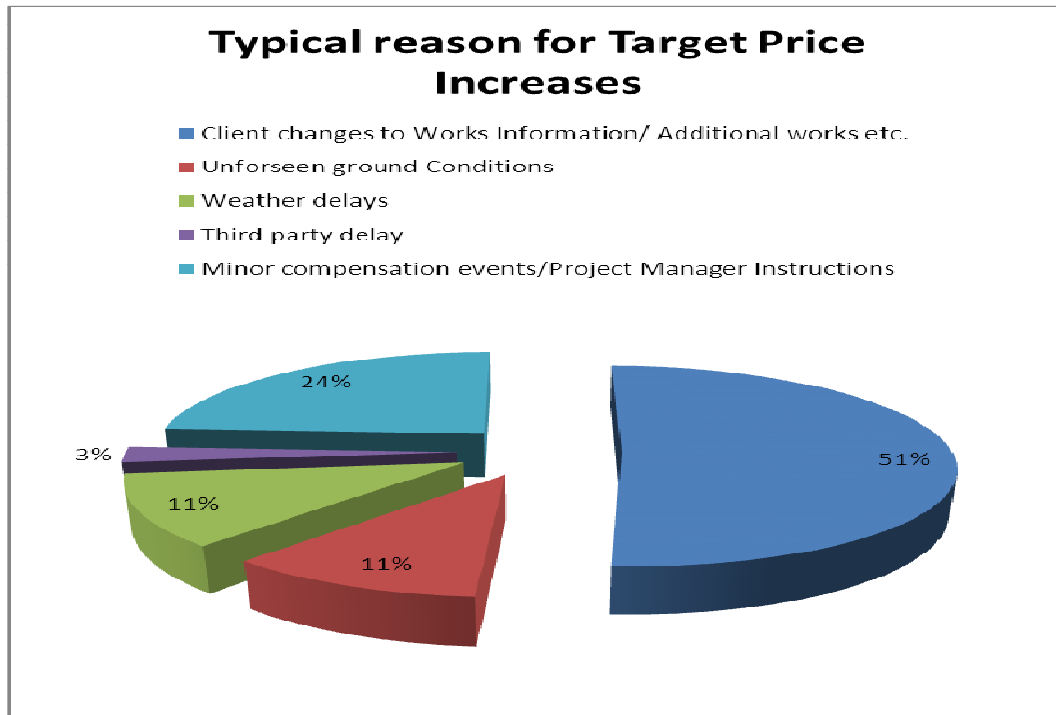
The table on page 10 shows the gain/pain share on each of the projects. Of the nine projects reported six achieved savings whilst on three the actual costs exceeded the agreed target price and the client's actual pain share is shown as a negative figure which, in these three cases, has reduced the overall savings figure for these three schemes.

Further detailed analysis of savings and agreed increases to target price are provided on the two graphs in Appendix A. Of the twenty projects which have been final accounted only fifteen are shown here. Two projects have been archived with the information unobtainable. Two more projects have made significant changes to the form of contract such that direct comparison here may be misleading and the fifth project, Doncaster White Rose Way has been let in two phases with a total value of over £22 million, and has been reported separately later in this report.

Of the fifteen projects reported here, nine projects, with an initial target price in the range between £1– £6 million form the basis of the savings already reported. To provide context the savings are reported in Appendix A against a

number of earlier reports including the industry wide Construction 2025 Report.

To accommodate change and unforeseen events during the construction phase the contract makes provision for the Project Manager to agree changes to the target price. The revised target price for each of the same fifteen projects is shown on the graph. There have been significant increases between the initial and outturn target prices on some projects. Analysis of the available compensation event lists has provided the information shown on the chart below which helps to understand the causes of these increases.

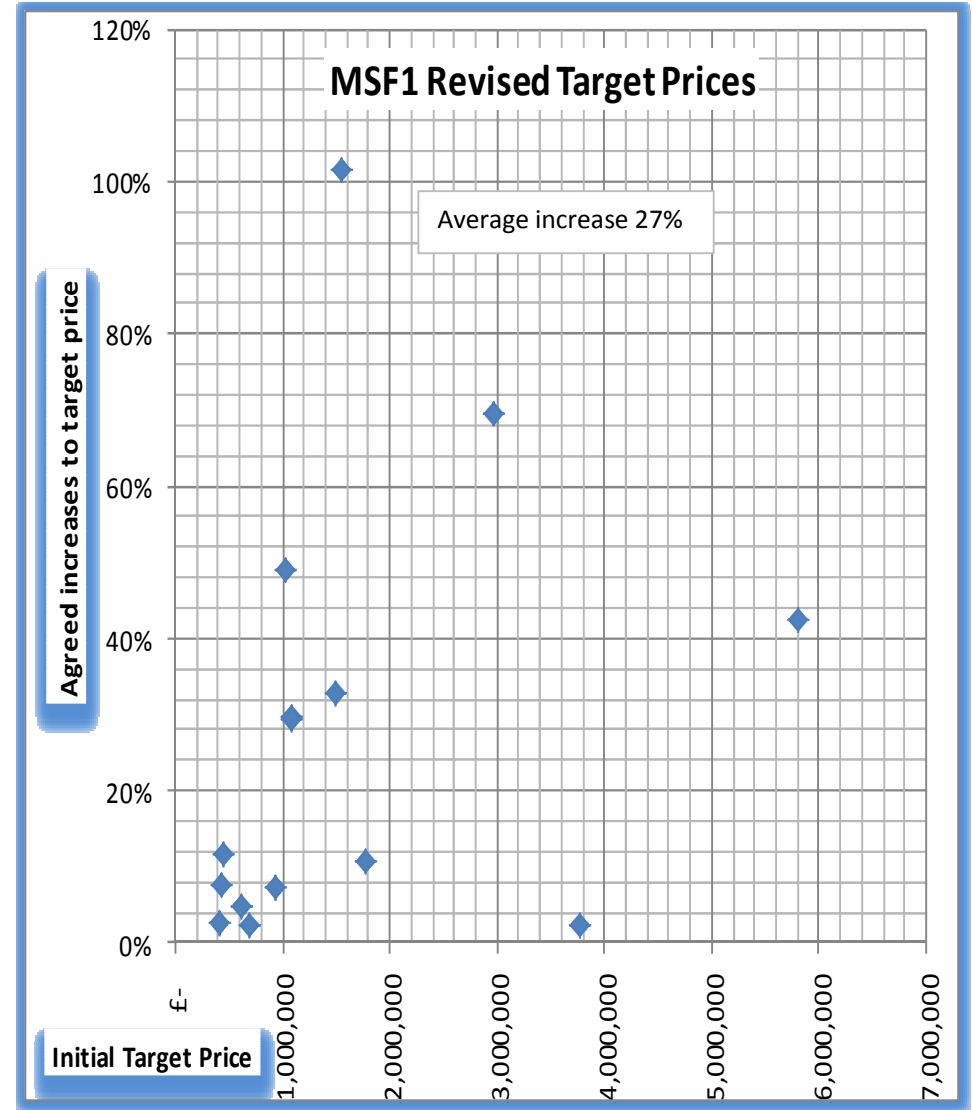
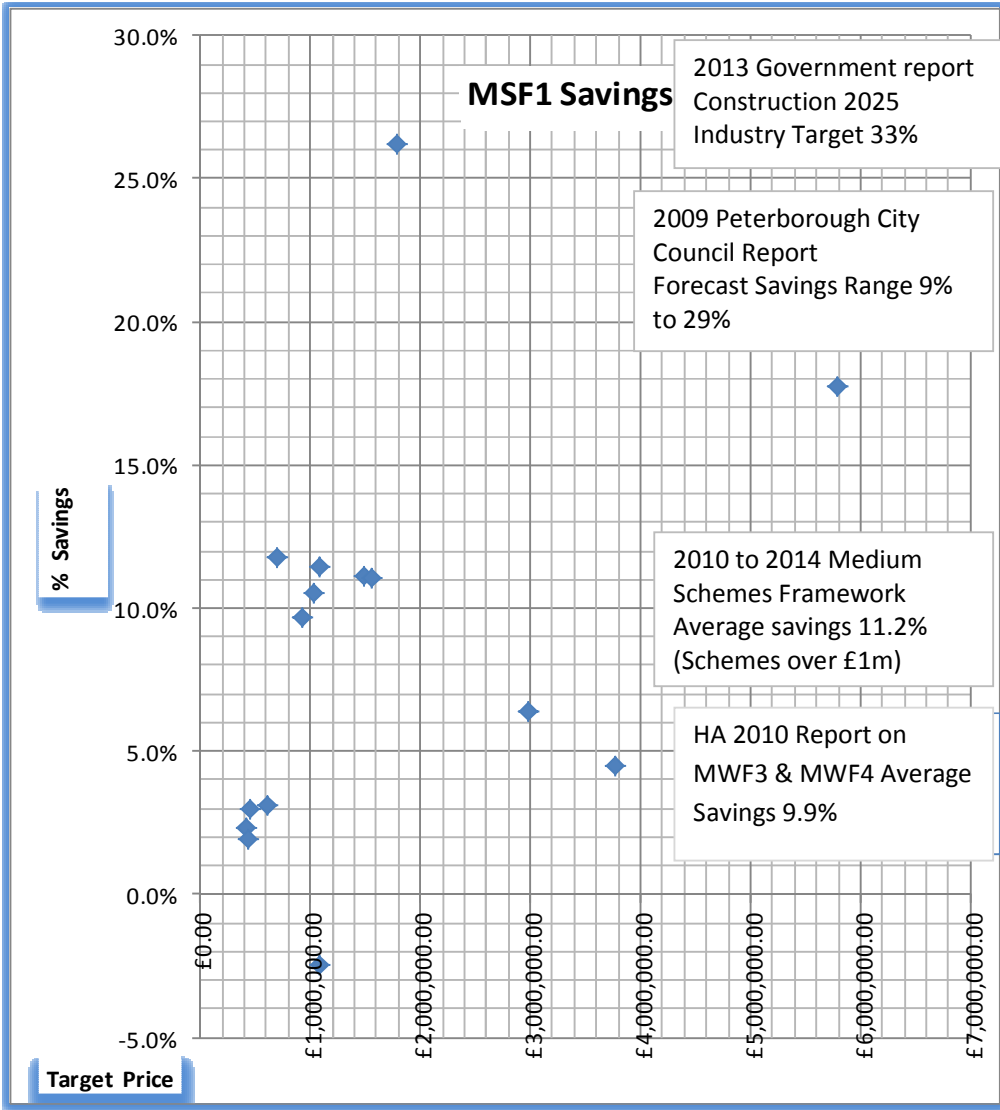


Six projects with initial target price less than £1 million are included on both the savings and revised target price graphs, in Appendix A. It can be seen that the variation from target price and the extent of savings are both generally less than for the nine schemes over £1 million. For the nine schemes in the range of £1 to £6 million there is significant variation in both the extent of savings achieved and the increase in target price during construction.

The nine projects have been delivered for six commissioning authorities and include projects completed by all four contractors, given the relatively small sample size it is not appropriate to further analyse outturn performance in relation to each client or contractor. However following further analysis reported in Appendix B, the distribution of the nine projects suggest no correlation to either savings or target price increase to the selection process used in each case. Similarly the target price increase appears unrelated to the extent of ECI on the project, however the savings on projects with significant ECI involvement do appear to be greater.

For comparison with the above projects the Doncaster White Rose Way project which was let in two phases by direct call-off with significant ECI achieved total savings of 10% with an increase in the combined target price of only 11%.

Appendix



Appendix B

Distribution of out-turns based upon selection method. No discernible pattern.

Savings		Target increase	
30%		100%	Mini-Competition
29%			
28%			
27%		90%	
	Direct Call-off		
		80%	
		70%	Direct Call-off
20%			
	Mini Competition	60%	
15%		50%	Mini-Competition
	Direct Call-off	40%	Mini-Competition
	Mini-Competition		
10%	Direct Call-off		Direct Call-off
	Mini-Competition	30%	Mini-Competition
			Direct Call-off
	Direct Call Off	20%	
5%			
	Mini-Competition		
		10%	Direct Call-off
			Mini-Competition
0%		0%	
-3%	Mini-Competition		

Distribution of outturns based upon more or less than 12 weeks of ECI. This appears to have little effect on target price increases but does correlate to the levels of savings recorded.

Savings		Target increase	
30%		100%	Over 12 weeks ECI
29%			
28%			
27%		90%	
	Over 12 weeks ECI		
		80%	
		70%	Fast start
20%			
	Over 12 weeks ECI	60%	
15%		50%	Over 12 weeks ECI
	Over 12 weeks ECI	40%	Over 12 weeks ECI
	Over 12 weeks ECI		
10%	Over 12 weeks ECI		Over 12 weeks ECI
	Over 12 weeks ECI	30%	Fast start
			Over 12 weeks ECI
	Fast start	20%	
5%			
	Fast start		
		10%	Over 12 weeks ECI
			Fast start
0%		0%	
	Fast start		
-3%			