

Using KPIs to manage multi-party agreements

Client: West Wiltshire Housing Society

Maintenance contractor: Connaught Property Services

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Sector: Public Housing

Theme: Benchmarking, Continuous Improvement

Maintenance and regeneration of social housing are prominent in Connaught's business plan. Turnover has increased six fold over two years, through acquisition and growth. Key performance indicators (KPIs), in conjunction with partnering agreements, underpin this rapid expansion. Connaught has found that KPIs attract new forward-thinking customers, convert others to the discipline of performance measurement, and give directors the confidence that the rapidly expanding business is being managed effectively. Connaught is now in the third year of a 10-year partnering agreement with West Wiltshire Housing Society for planned maintenance. In the absence of competitive tendering, the KPI regime gives the partnering agreement the 'teeth' needed to enforce compliance and continuous improvement.

Key benefits of these KPIs for the client

- Appropriately selected KPIs demonstrate best value.
- Incentives linked to KPIs drive continuous improvement.
- The KPIs are part of a clearly auditable process.

WWISH LIST

Six contractors

NEC Option E contracts with multi-party X12 partnering agreement

20 x 6 month phases

Connaught to service £18m spend over 10 years

13 KPIs for contractors

13 other KPIs

Commitment to:

- measuring progress
- continuous improvement
- sharing gains.

for Connaught

- Better KPI scores are rewarded by higher profit.
- KPIs guide directors in keeping the rapidly expanding company on track.
- KPI data provides a report to show to other clients.

Partnership profile

The West Wiltshire Improving Standards in Housing project (WWISH) is a multi-strand partnership. The client, West Wiltshire Housing Society (WWHS), has contracts with six maintenance contractors – Connaught, Signpost Services, Window and Glazing Consultancy, Russell Construction, SEC

and Times Construction – for planned maintenance of its stock of 5500 houses over 10 years, dating from September 2001. The programme runs in 20 six-month phases and the total budget is £48m of which £18m is earmarked for Connaught.

Under Option E of the Engineering and Construction Contract (ECC), the Contractor is reimbursed for actual costs plus a fee. This option is effective when it is not possible to fix a target cost, or if time and quality are overriding priorities – both being issues for WWHS. Subcontractors and key suppliers are tied into the client-contractor partnership via the X12 partnering option that extends ECC for multi-party partnering.

WWHS also expects the six contractors to collaborate. The client, the main contractors, tenants representatives and selected suppliers meet monthly to plan work programmes, share experience, benchmark against one another, and explore ways to achieve a more integrated supply chain. (For example, the six contractors now work with only three kitchen suppliers.)

Lessons learned

- KPIs drive performance improvement for clients and contractors alike.
- Where KPIs affect payments, negotiate early with auditors.
- Plan ahead if changes to standing orders are needed.
- Data must be collected and analysed regularly to be of use in management.
- IT tools are essential for collecting and analysing the data.
- All stakeholders should influence the design of forms for collecting data.

Why these KPIs were needed

The KPIs serve two purposes; they maintain pressure to perform and lead to continuous improvement. Peter Mitchell, WWHS Project Manager, recalls the client's decision, saying: "We're going into this open book. But KPIs will drive it. So the better you perform, the more you'll earn and the more repeat work."

The contractor's fee is in two parts, a ring-fenced payment for overheads and basic profit (typically 7-8%) and up to another 7.5% linked to KPIs. Competition between second-tier suppliers keeps the brake on reimbursable costs.

Performance measurement strategy

The main contractors and the client agreed two sets of KPIs, one for the contractors and the other for the client, their consultants and the second tier suppliers. The Housing KPIs, which were sponsored by The Housing Forum and are published by Constructing Excellence, were the starting point.

The KPIs

These are the 13 main contractor KPIs. Where profit can be generated for good performance on the KPI, the maximum percentage is shown in brackets. For example, (0.5%) earns up to 0.5% profit.

- client satisfaction – product
- client satisfaction – overall service
- tenant satisfaction – product
- tenant satisfaction – overall service (2.5%)
- quality/defects – inspections (0.5%)
- defects – handover (1.0%)
- defects – defects liability period (1.0%)
- predictability – cost (0.5%)
- predictability – time (0.5%)
- safety – main contractor (1.0%)
- safety – commissioning client
- environmental impact (0.5%)
- contractor innovation.

There are another 13 secondary performance indicators (SPIs), designed to involve everyone in the measurement. These cover client satisfaction with the consultants and the supply chain, and contractor satisfaction with the client and consultants. Tenant satisfaction with home improvements and use of tenants' questionnaires is measured, along with, communication in the team and use of information technology (such as the project Extranet). Finally, accuracy and settlement of final accounts, resolution of disputes and claims, and improvements to the specification are rated.

Measurement

Data is collected progressively, and analysed and formally reported at the end of each six-month phase. The defects liability period KPI is measured after that time passes, and tenant satisfaction with the product is measured 12 months after installation.

Engagement with tenants is a key feature of the system. This goes far beyond resident satisfaction surveys. Tenants' Representatives have been involved from day one in selecting contractors, the monthly project meetings and KPI evaluations. These people are volunteers whose contributions are highly valued by the partners. The contractors also employ Tenant Liaison Officers. Connaught has led this initiative by producing a best practice guide that complements Constructing Excellence's Respect for People principles.

What they do with the KPIs

The main contractors earn the first part of their fee automatically when they bill their reimbursable expenses. But the KPI-linked part is payable biannually after each phase is assessed. The profit earned is calculated from an agreed scale derived from the KPIs. Contractors are earning typically 6-7% of the possible 7.5%.

Next steps

■ About KPIs:

- Visit the KPIZone at www.constructingexcellence.org.uk.
- Read the fact sheet *Benchmarking* at www.constructingexcellence.org.uk.
- Attend *Introduction to KPIs* – one of the Constructing Excellence 'Learning By Doing' workshops. Book via Camargue T 01242 577277.
- Measure your progress with *The Construction Industry KPI Pack* or *The Housing KPI Toolkit*. Order from Rakusen Design, T 01702 393200.
- Download KPI wallcharts from www.constructingexcellence.org.uk.

■ Constructing Excellence has:

- a network of advisors to help you
- fact sheets on a range of best practice business topics
- a Constructing Excellence club near you.

■ The Construction Productivity Network holds workshops on best practice business topics, T 020 7549 3300, www.ciria.org.uk.

At the end of phase one, Connaught was disappointed with its score for 'client satisfaction – overall service'. It was only 75%. This has gone up to 90% after phase 4, which testifies that acting upon the comments collected at the end of the phase and setting targets for improvement on the next phase makes the difference.

The SPIs also show rising scores. For example the process includes two-way appraisals of individuals with their immediate team members and opposite numbers. This led to initial scores of five to six moving to eights and nines.

WWHS is confident that the KPIs are demonstrating value for money – something validated in its recent Housing Corporation Inspection which said: "The KPIs associated with the planned maintenance partnering are innovative and comprehensive and represent an area of good practice."

What happens next

Connaught see KPIs as the best means of showing that performance is improving, citing the Housing Corporation, Audit Commission and Clients Charter as drivers.

Connaught is tackling more partnered schemes that rely on KPIs to measure performance, such as the Merlin project at Reigate and Banstead Housing Trust, where profit is paid in the same way. Other clients, such as Family Housing Association, Braintree District Council and Hounslow Homes, have taken up KPIs to measure Connaught's performance.

WWHS has now adopted a KPI-driven approach on its new responsive repairs project to mirror planned maintenance.

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