



Achieving Efficient Delivery of Local Highway Services



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The Institution of Highways and Transportation Procurement Board

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Executive Summary

Efficiency is and will remain a key priority for both central and local government for the foreseeable future, with targets likely to become ever more demanding. Fresh challenges facing local government, including a possible White paper and the Lyons Review expected later this year, are likely to reinforce the objectives of the efficiency agenda – i.e. improved quality, efficiency and effectiveness of customer focussed local highway services.

Highways represent the biggest asset on most, if not all, local highways authorities' balance sheets – but often have one of the lowest levels of priority and spend. However, an efficient and effective local highways network has positive impacts on all other elements of local service delivery and the local economy.

The local roads industry has responded positively to change over the last two decades. Principally this response is characterised by outsourcing of service delivery, and the establishment of better and longer term partnerships with private sector organisations.

Improved procurement is critical to achieving greater efficiency and effectiveness of service delivery. However, of equal importance to the design of particular procurement models are the attitudes and behaviours of organisations and individuals to change and collaboration/partnering arrangements – at both senior management and operational levels.

From the case studies examined in the report, no single 'best practice' solution emerges as the most appropriate for all highway authorities to implement. However, there are fundamental issues that all authorities must address such as:-

- proactively managing 'partnerships' beyond the initial stages
- developing an holistic procurement strategy
- engaging efficient delivery processes
- developing a robust approach to whole life costing
- encouraging greater integration of the whole supply chain

Although individual authorities are moving forward, they are not necessarily doing so in a co-ordinated way. Exploitation of the benefits of client collaboration is very limited but collaboration between local highway authorities and with the Highways Agency is an essential step.

The strategic priorities of any single highway authority will not be disadvantaged by greater collaboration. The governance arrangements of highway services are fragmented at local level resulting in unnecessarily diverse specifications and a plethora of forms of contract and uncoordinated renewal dates. These can and should be better aligned between authorities. The ability to produce more robust, long term, improvement strategies requires greater clarity about future capital and revenue requirements and effective asset management.

However, small scale local change may not be enough to achieve current and future efficiency and service quality improvements. Significant step changes may be needed in the way local authorities work together, including:-

- joint forward planning
- improved collaboration particularly between adjacent authorities
- development and universal adoption of common standards, specifications and model contract documents

Progress in delivering the Gershon efficiency targets has been good but major challenges lie ahead and urgent consideration needs to be given to how these are met. Local highway authorities must consider whether they are implementing real change or doing just enough.

Current circumstances are challenging but provide the best opportunity for several years to improve the efficiency, effectiveness and quality of highway services.

1. Introduction

This report was commissioned by the Highways Agency and prepared by Happold Consulting. It focuses on the efficient delivery of highway services and considers how that can be achieved through good procurement.

It examines the procurement practices that local highway authorities have adopted for both professional and construction services. It explains the context that has shaped the current position, highlighting the new drivers that will shape the future environment, and discusses the implications for the procurement of highways services.

1.1 Purpose of the Report

The fundamental objective of this report is to help local highway authorities to develop their procurement strategies to achieve greater service delivery efficiency.

To achieve this objective, ten case studies illustrate some examples of current industry practice including innovations, successes and difficulties. The report also considers some of the barriers that need to be overcome and opportunities that this provides. It also highlights some of the actions needed, at local, regional or national level.

1.2 The Efficiency Agenda

Efficiency will continue to be high on the agenda for local government and the whole highways industry has a key part to play in delivering this particular expectation for public services. Excellent procurement is one of the key mechanisms by which local authorities will achieve greater, sustainable efficiencies to meet existing and future targets.

1.3 Procurement Strategies

The National Procurement Strategy for Local Government (2003-2006) set out how central and local government, working together with partners from the public, private and voluntary sectors, should improve local government procurement. The objectives set for all councils were to meet the needs of local citizens with significantly better quality public services, delivered by a mixed economy, with the expectation of continuous improvement and greater value for money.

In 2005 a wide consortium of representative bodies comprising the Highways Efficiency Liaison Group (HELG) produced the Highways Industry Strategy entitled 'Achieving Efficiency Gains from Collaborative Roads Procurement'. This recognised that efficiency must be at the heart of public sector provision and set out the case to clients within the highways sector to support the principle of client collaboration and closer partnership with their supply chains.

The objectives and challenges within these strategies are the focus for this report and the way forward for the highways industry.

2. Background

2.1 Context of Local Highway Service Delivery

Highway authorities have a duty to maintain highways at public expense. While national policies, frameworks and funding mechanisms direct and prioritise these functions, highway authorities are able to use their discretion to determine the detailed methods by which they discharge these obligations.

Public services face the dilemma of trying to satisfy near inexhaustible customer demand with finite resources – and the provision of highway services is no exception. In recent decades, local government has been subject to increased budget pressures. Additionally, some local authorities have diverted highways budgets (particularly maintenance) to deal with pressures on other service areas.

The traditional method of delivering highway services was primarily through in-house design and construction functions, although some level of engagement with the private sector via both long-term and ad-hoc arrangements has been common for many years.

2.2 Recent Major Influences

The last two decades have seen several major changes to the policy and strategic framework for highways and transport as well as other specific challenges and expectations. These have all contributed to the shaping of highway services procurement and delivery in recent years.

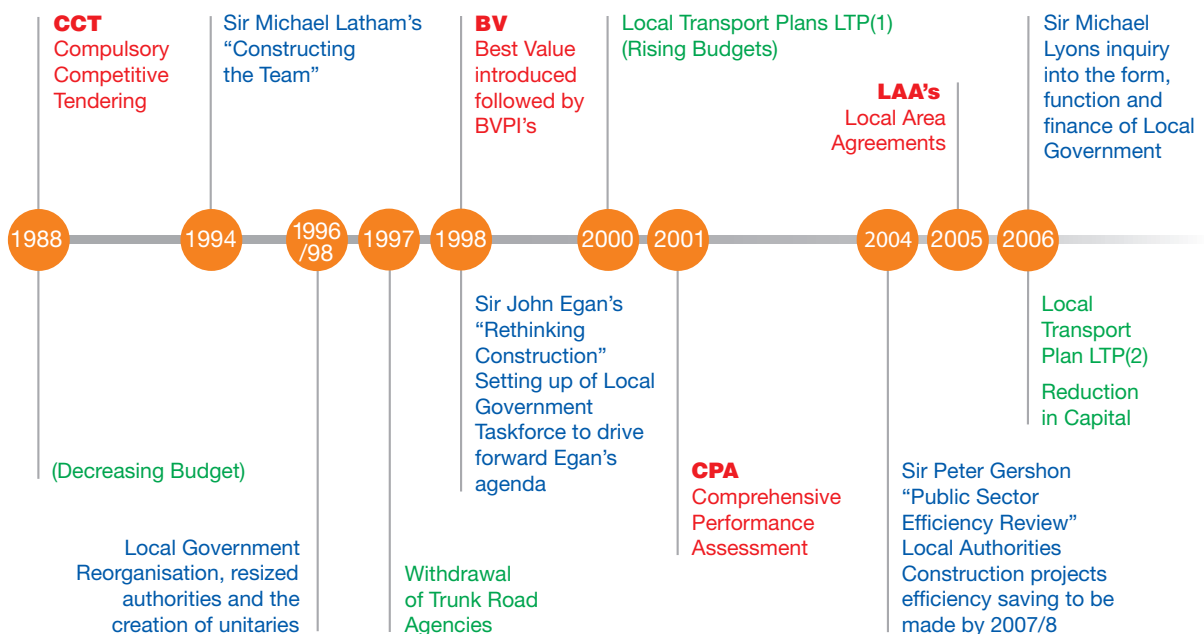


Diagram 1: Major Influences on Procurement

The timeline shown above illustrates those issues that have had the greatest influence on highways service delivery and solutions. Overlying CCT, the construction industry faced a deep recession which led to extremely low or non-existent margins, and an increasingly claims conscious culture with decreasing levels of satisfaction among clients. As a result of declining workload, many local authority highway departments were faced with reduced efficiency and competitiveness due to increasing overheads, lack of money to invest in new equipment and technologies, and an inability to recruit, train and retain appropriate staff.

‘Constructing the Team’ proposed a move away from one-off contracts based on price alone towards the development of longer-term relationships focusing on continuous improvement. Building on this, ‘Rethinking Construction’ aimed to improve the performance of the construction industry by involving the supply chain in projects at an early stage.

Best Value redefined CCT. This did not remove the need for competition but broadened those requirements, balancing quality and cost. An array of performance indicators emerged, giving greater public transparency of service delivery.

A significant change in approach to transport planning was introduced through Local Transport Plans (LTPs), which established longer-term programmes to deliver multi modal strategies. The rating of an authority’s LTP feeds directly into the Comprehensive Performance Assessment (CPA) – the overarching performance management framework for the delivery of public services.

The Gershon Review of Public Sector Efficiency focused on efficiencies, as opposed to cuts, that would deliver front line service benefits. Such efficiencies could be reported in one of two ways:

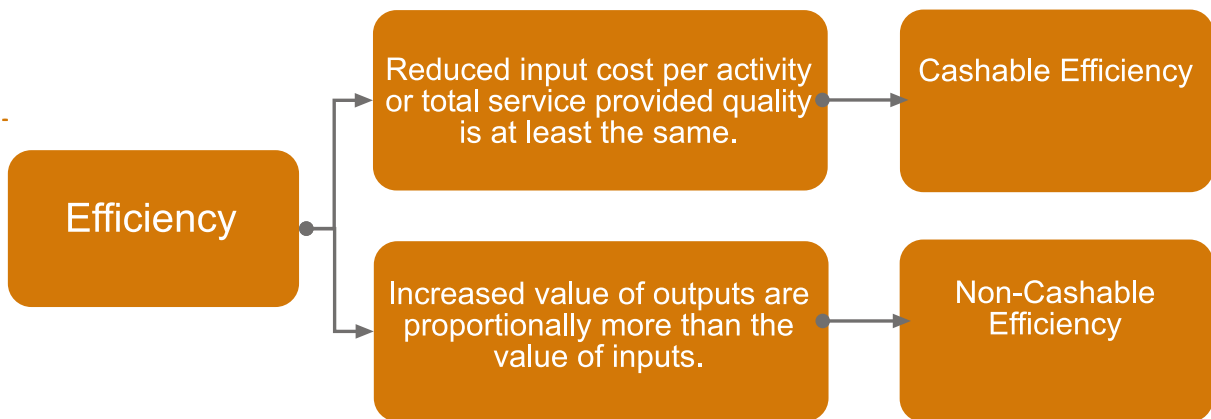


Diagram 2: Cashable and Non-Cashable Efficiencies

It is nearly two years since the Gershon Report was published (July 2004) and September 2006 is the midpoint for delivery of the current local roads efficiency target - £190m. Progress so far has been good with approximately £56m of efficiencies expected by the end of 05/06 and a further £53m predicted for 06/07.

2.3 Early Industry Response

Whilst some authorities were in a position to manage and address these major influences internally, a number sought to transfer some or all of the services to the private sector.

Typically these arrangements were based on functional lines i.e. the transfer of professional services or, more usually, the construction function. These arrangements were often 'traditional' contracts with limited provider involvement in formal planning and sometimes with inappropriate allocation of risks.

Alongside the influences discussed above, different local pressures, priorities and resources applied to each authority. It is therefore unsurprising that a diverse range of service delivery arrangements now exists.

2.4 Procurement Models

In 2004, the Public Private Partnerships Programme (4ps), in collaboration with the Institution of Highways and Transportation and a selection of local authorities, published 'A Guide to Procuring Local Authority Transport Schemes and Services'. That guidance applied mainly to projects but also to services and identified the main procurement types as in-house provision, service outsourcing, traditional procurement, partnering contracts, Private Finance Initiative (PFI) or Design Build Finance Operate (DBFO), concessions and franchises.

This guidance demonstrated the range of different procurement and public / private partnership models available to local government. These models continue to be developed and are becoming increasingly sophisticated to meet the perceived variation in needs of different local authorities. A recent report by the East Midlands Regional Centre of Excellence has explored one of these options, framework contracts, in some detail.

The diagram below provides only a summary of the principal models that are available for the delivery of highway services. These continue to be modified by local authorities – and indeed the private sector – as authorities seek to secure ever more efficient service delivery, tailored to local circumstances. Concession arrangements and PFI arrangements have so far usually been adopted to suit a specific funding opportunity rather than a service strategy

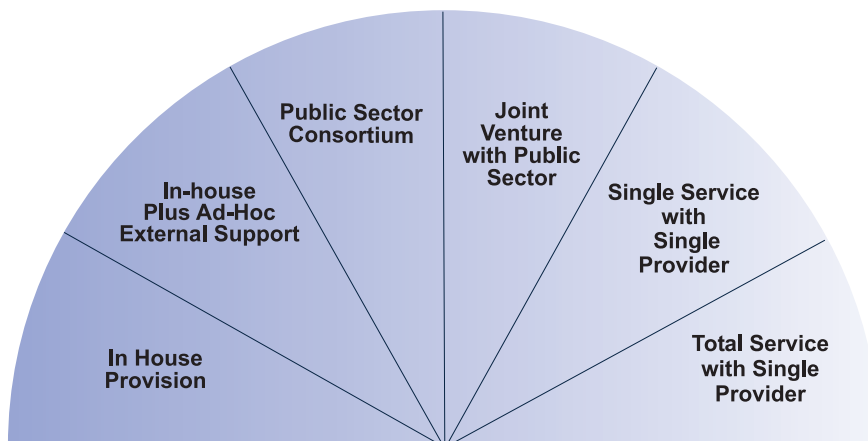


Diagram 3: Highway Procurement Models

While selecting the most appropriate model will help to achieve service objectives it is not, as is sometimes assumed, the overriding factor that will determine success or failure. A good choice of model will help to achieve policy or strategic objectives, but will not in itself determine the outcomes. Some of the case studies clearly illustrate that a procurement model other than that most suitable to a particular circumstance is capable of delivering great success. Equally, adopting an ideal model provides no guarantee of excellent delivery.

Some clear trends have emerged in recent approaches:

- Partnerships and alliances are largely replacing traditional contracts.
- Arrangements are becoming longer term.
- Performance management and incentivisation mechanisms continue to be developed.
- One-stop customer shops (actual or virtual) are becoming more prevalent.

In their simplest form the models define the extent of the service that is delivered by either the private or public sectors. They do not in themselves define the business processes and / or the interaction between the various parties.

The wide range of models in use by local government can be simplified as illustrated in the following diagram

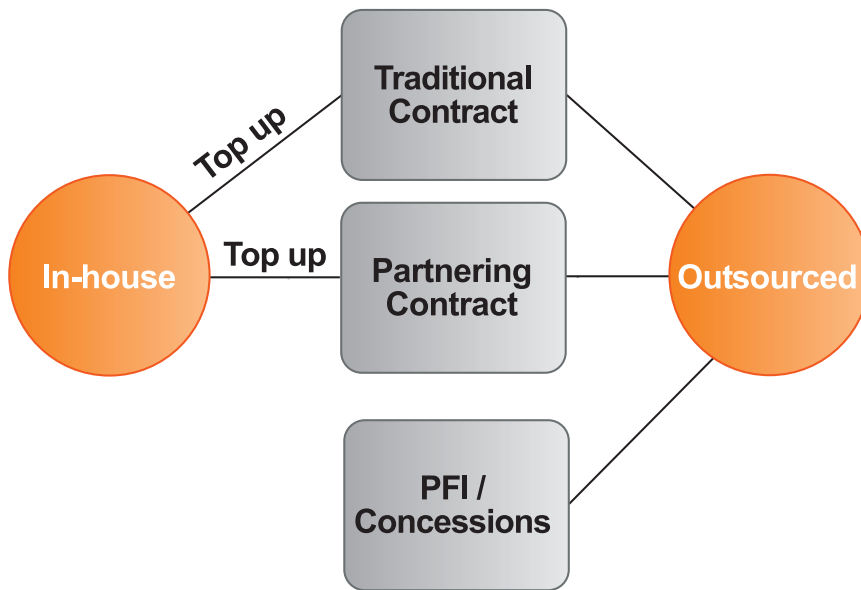


Diagram 4: Service Delivery Arrangements

3. Highways Governance

3.1 Key Aims and Strategic Priorities

Local authorities have developed service delivery priorities around circumstances particular to their area. The political dimension has often provided a strong steer, which in turn is reflected in budget allocations. Priorities differ between authorities. Some struggle to attract new staff to supplement and replace an existing maturing workforce; others require investment and some are simply unable to demonstrate efficiency in delivery due to the small scale or nature of contracts.

Typically, the strategic priorities evident in several of the case studies relate to one or more of the following:

- Alignment and delivery of corporate policy and procurement strategy.
- Improved performance i.e. effectiveness and efficiency.
- Customer satisfaction.
- Flexibility and capacity to deliver future demands.
- Staff considerations.
- Cost effective and competitive services.
- Joined-up and integrated services.
- Benefits from partnership working.

These criteria align with Government policy. The list is not definitive as other factors are relevant to the final selection of a service delivery option. They could however help to provide a framework to compare the various delivery mechanisms that exist in the marketplace.

3.2 Governance and Collaboration

The diagram below illustrates the provision and governance of highway services across England with 149 local highway authorities and one strategic road authority (the Highways Agency). Although the HA comprises 14/15 areas they all use similar procurement and delivery mechanisms. Local highway authorities each adopt a unique approach to procurement and delivery and many also employ different types of highway contracts.

While standardised approaches across all local highway authorities might be a longer term goal, there is considerable scope for short term gains by:

- Greater alignment of approach
- Simplifying the range of contract types, specifications etc. to help improve tendering and delivery of efficiencies by the supply chain
- Encouraging greater highway authority collaboration particularly between adjacent authorities.

It is clear from the case studies that some progress is being made in these respects.

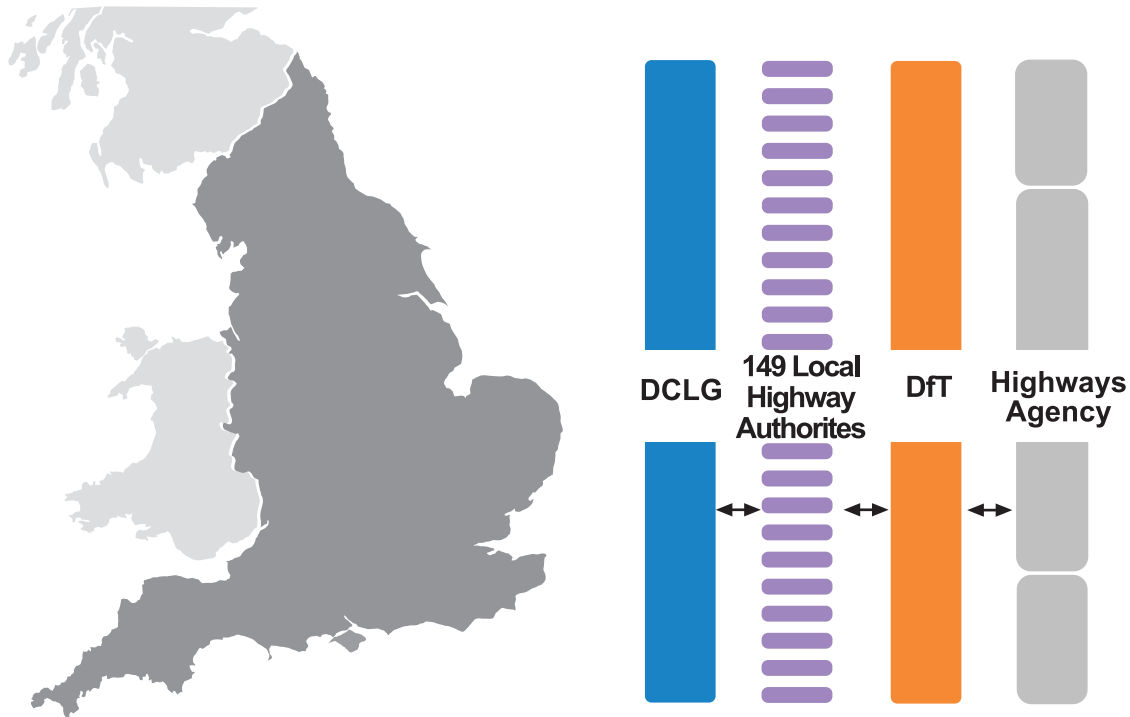


Diagram 5: Provision and Governance of Highways Services in England

An often discussed barrier to adopting greater collaborative working is the existence of bespoke technical or other requirements due to local geography, demography and/or policy and political reasons. Some of these issues are valid but many relate to historic practices with little current relevance – they may not have been given a high priority for updating or alignment between potential collaboration partners.

The specification of construction details and materials is a prime example; a move to outcome specifications, i.e. a more uniform level of service provision, may help to resolve these issues.

Local highway authorities base their standards and specifications on those produced by the Highways Agency, which were developed specifically for motorways and trunk roads. Therefore, because each local authority has individually adapted these standards to suit their roads, this has led to significant variations across the country. Similarly, the wide variation in procurement forms and contract models produces tendering and service delivery inefficiencies. Longer term benefits would result from the development and universal adoption of specifications and standards specifically tailored for local roads.

A key objective must be to improve the understanding and therefore the management of overall local highway authority demand on the supply chain. This will require knowledge of all local authorities' forward programmes and the ability to influence these and the timing of tender invitations.

3.3 Funding

At present the main funding mechanism for local authority highways from central government comes in the form of revenue funding through DCLG (formerly ODPM) and capital funding provided by DfT. Although centrally coordinated, the way in which those funds are used by each authority for highway programmes is the responsibility of each authority ie. they are not ring-fenced. However, there is an expectation that adequate funds will be spent on transport and the level of funding is influenced by the quality of the LTP in meeting delivery targets defined in outcome terms.

Effective and efficient highway asset management and associated highway service delivery requires comprehensive and informed planning with a clear view about future capital and revenue requirements and budgets. Greater certainty of these highway budgets is therefore an important issue

4. Procurement and Drivers for Change

The National Procurement Strategy defines procurement as 'acquiring goods, works and services, covering both acquisitions from third parties and from in-house providers'. However, procurement is not just the specific task of tendering and buying services it is the whole process of considering all of those issues and factors necessary for forming a robust strategy for service delivery, then implementing, reviewing and improving the chosen mechanism.

The Annex documents a series of case studies summarising the various service delivery mechanisms that a selection of highway authorities have adopted. These studies explain the background and decision making processes that led to the arrangement. They each include a series of learning points and outline, where appropriate, any improvement plans for a new strategy and/or contract.

The pace of change seems set to continue. This emphasises the importance of having a long-term vision and an understanding of those drivers that will shape the future service environment vital for determining an appropriate procurement strategy. Some of the issues that will influence the delivery environment are discussed below and procurement strategies and solutions must take full account of these emerging priorities.

4.1 Efficiency Requirements

Efficiency targets will remain a key issue for local government. Although highways and highways services expenditure represents a relatively small proportion of the total local authority spend, all other local services and the local economy depend on having an efficient and effective transport network.

The more achievable Gershon efficiencies are likely to have been secured at an early stage (quick wins) and further efficiencies will become progressively more challenging. Although Government did not expect the main efficiency benefits to arise until 2006 and after, expectations are high for more to be achieved. The efficiency requirements beyond 2007/08 will not be published until after the 2007 Comprehensive Spending Review but clients and service providers should be prepared for targets that stretch beyond 2.5% per annum. Achieving this could require a significant step change in approach, including a culture shift, beyond the changes made to achieve the efficiencies to date.

Recent guidance has been developed for local authorities in addition to general DCLG advice. The Toolkit for Local Transport Highway Efficiency Gains, sponsored by the HELG, offers advice to local highway authorities on achieving and measuring efficiency. It has been published on the Regional Centres of Excellence website (www.rcoe.gov.uk).

4.2 Whole of Government Accounts and Asset Management

Following the introduction of whole of government accounting, highway authorities are now preparing asset management plans which include assessments of

condition and current value of the local network.

Expenditure on highway maintenance already forms a high proportion of transport spending and the monetary valuation of local highway networks will confirm that it is by far the largest item on most local authorities' balance sheets. The challenges for highway service managers are acute. There are considerable efficiency and customer benefits to be gained by developing greater uniformity of asset management strategies and plans across local authority boundaries. Asset management experience and methods will result in different technical solutions to reflect the greater emphasis on whole-of-life investment considerations. In this regard there is a need for tools that enable alternative maintenance options to be accurately assessed on a whole life cost basis, such as the pavement management system used by the Highways Agency (HAPMS) and that still under development for local roads, UKPMS. This would help to clarify the implications of prioritisation and investment strategies on the overall balance sheet.

Future funding and investment decisions will be influenced by the improved understanding of the value of the highway network and the positive impact that long term investment planning can achieve – including possible re-prioritisation between capital and maintenance expenditure.

Investment planning should consider both capital and revenue requirements with the balance determined by best value and whole life considerations, not funding streams.

4.3 Local Area Agreements (LAAs) and Local Strategic Partnerships (LSPs)

Transport affects almost all walks of life and the additional 'economic development and enterprise' policy required for all future LAA's includes targets for transport. The delivery of highway services will be influenced by the local policies and proposals that emerge from local agreements and ambitions which may create tensions between community and strategic transport priorities.

LAA's are intended to simplify some central funding, help join up public services more effectively and allow greater flexibility for local solutions to local circumstances. Other implications for highway services and procurement arrangements will include revised mechanisms for stakeholder engagement and a higher profile for street scene, accessibility and inclusion issues.

4.4 The Future Form, Function and Finance of Local Government

A consultation on the review of the future of local government is now underway which may lead to the publication this summer (July 2006) of a white paper focusing on the following principles:

- Providing strong, visible, accountable leadership.
- Engaging and empowering people as individuals, communities of place and interest.
- Delivering efficiently integrated and co-ordinated high quality public services no matter who provides the service.

Simultaneously, the original remit of the Lyons Inquiry has been extended to

consider the more fundamental issues of the shape of local government and its future role as well as how it is financed. That inquiry is due to report in late 2006.

The inquiry will inevitably consider local governments' ability to lead on local community and neighbourhood issues and also the wider scale strategic planning and direction role.

Local government has often provided evidence of the inefficiency of small delivery units, e.g. up to £0.5m/annum additional costs (for a single authority) due to the loss of Highway Agency work and even greater figures were cited during the last Local Government Review.

The detailed implications for local government are yet to emerge but could be as far reaching as the establishment of new and changed highway authorities with significantly different funding streams and mechanisms. Whatever the shape of the new authorities, at the heart of Government direction is a high expectation for local leadership and a demand for strong, effective service management.

4.5 Longer Term Transport and Procurement Planning

Some authorities have avoided the natural tendency to adopt a 'comfortable' development of existing arrangements by ensuring that long term policies, strategies and objectives drive their procurement strategy.

An authority's LTP2 objectives will need to be carefully considered in any new procurement strategy and the timescale of those deliverables will influence the duration of a service delivery arrangement. Highway authorities are required to:

- Plan longer term strategies
- Set transport in the wider context
- Set locally relevant targets and performance trajectories
- Propose best value for money solutions
- Adopt asset management principles with whole-life decisions

Consideration should be given to motivating all partners to deliver shared goals for the whole life of the arrangement and determine how innovation and investment can be sustained beyond start up.

The need for flexibility in any long-term arrangements has been identified in several of the case studies. This need is reinforced by the local government reform agenda, which has the potential for significant reshaping of roles and responsibilities.

5. The Way forward

5.1 Procurement Strategy

The diagram below is a model process map of the considerations typically involved in developing an initial procurement strategy through to reviewing how well any arrangement is delivering the client objectives. Although it is shown as a linear process, several aspects of the process will be iterative. A simplified version would apply to wholly in-house service provision and not all elements of the process will need to be applied to every procurement situation but this should be because of local circumstances rather than failing to address one or more of the illustrated steps or considerations.

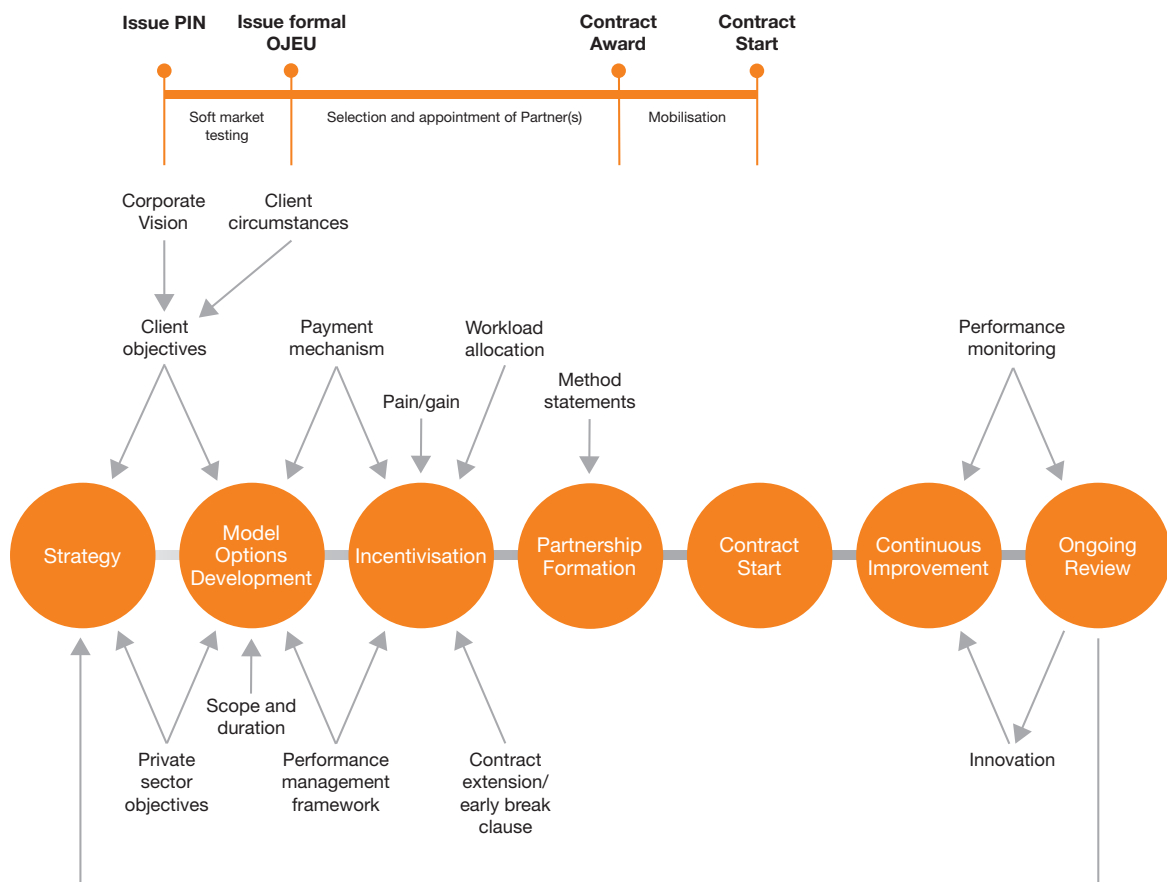


Diagram 6: Procurement Strategy and Process

5.2 Planning For Success

All too often local government reacts to circumstances without developing an appropriate business case for the strategy. In such circumstances it is often procurement that drives the delivery of service as opposed to local needs and circumstances driving procurement. Local government must be capable of managing and influencing the highway function but not necessarily delivering and

directly controlling the service itself. The preparation of a robust formal business case will help define a robust and most appropriate strategy.

The market for the delivery of highway services is healthy with a strong field of potential providers. However, neither bidding capacity nor delivery capacity is inexhaustible. A contract opportunity that is consistent with a potential provider's capability and culture will generate greater scope for the authority. This will be in terms of the quality of organisations keen to participate, in the competitiveness of the financial and quality bids and the success of the service delivery outcomes

Ensuring that the delivery mechanism is aligned with both the authority's objectives and those of the market will maximise the potential for successful collaborative working. The success of any partnership will rely on the calibre of the people involved (as discussed later). It is naïve to think that a successful arrangement with the private sector can exist unless it is commercially viable.

Several authorities have recognised the need to understand and engage with the market at an early stage. Where such soft market testing has been employed, it has proven to be invaluable in helping shape the approach and providing the foundations for a successful outcome of the procurement process. Not only does this approach provide the authority with valuable information, it informs potential bidders of the authority's objectives so that bids can be developed to meet the precise needs of the authority - as well as establishing a sound basis for successful partnering. A well constructed procurement opportunity will maximise the market interest and promote competition.

Regardless of the delivery model or the balance of in-house and external service provision, it is inevitable that some organisational change will need to take place before implementing any new arrangement. This may be specific realignment or full reorganisation but in either case the extent of the changes and period for their implementation should not be underestimated.

The incoming provider will need time to mobilise, which might involve significant recruitment, procurement of plant, premises and other resources. Equally, outgoing providers will need an opportunity to wind down their operations and make arrangements for assets and staff. Detailed consideration should be given to how work in progress is managed to ensure a smooth transition of projects and services.

Any transfer of workload to another provider will be subject to the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE), which is complex and on occasions problematic. The new TUPE legislation, which came into effect on 6 April 2006 clarifies the previous legislation and extends its scope in some areas. Perhaps most significant is the new definition of a 'service provision change' which will give greater certainty that TUPE applies to nearly all cases where there is a change in supplier

5.3 The Partnership Organisation

Most case studies recognise that a Partnership Board to set strategy and oversee the development of the partnership is important requiring positive leadership possibly by the appointment of a partnership director. Clarity of roles and responsibilities between partners is also seen as essential. It is recognised that partnerships take time to develop and that they should continuously evolve. Continuity of senior staff is an important factor in the successful development of relationships.

A single brand or point of contact for the public interface is seen as very important in terms of public perception. However, it should be recognised that customers (the public) often want to be able to talk to someone who they recognise as “the council”. Failure to do so could result in negative public perception of service delivery. Therefore it is extremely important to get the branding right so that it is recognised as being a public run service regardless of the commercial arrangements that may exist for service delivery. The arrangements for managing the public interface should be clearly defined within the partnership to avoid creating confusion and additional work arising from managing dissatisfied customers.

Depending on the model chosen, the role of the ‘retained client’ may be quite different to the one previously undertaken. It is likely to be more concerned with the facilitation of service delivery (by helping to set policy, work programmes, and contract/business management), rather than service delivery itself. Careful consideration must be given to this point to ensure that the right skills are retained but also to ensure that the authority is able to attract and retain staff of the right calibre.

5.4 Key Attributes of Partnership Working

Partnering philosophy is well documented but it is a broad term that describes a wide range of different arrangements. The contract document is the foundation for the partnership but the partnership itself depends critically on people - their attitudes and values. Flexibility should be expected from both parties. Some decisions are made collectively, common goals are agreed and performance is measured both individually and in overall terms.

Potential partners come in all shapes and sizes, and have varying objectives. Common values and complimentary skills should be exploited whilst any divergence of values, which could lead to conflict, should be dealt with at pre-tender stage to ensure that outcomes are shared and jointly owned from the outset.

The cultural alignment of partnering organisations is of fundamental importance and should not be underestimated. Organisations must recognise where change is required and be prepared to make that change dealing positively with the practical issues that need to be overcome.

This applies to the authority as well as to the service providers. Organisations with a partnering culture are likely to have staff with the appropriate mindset to promote a team spirited approach to change as well as to partnering.

Partnerships are about people and they only work effectively if the people involved understand each other, have common and clear aims and, perhaps most importantly, can work well together. However, it will usually not work - no matter what the size or reputation of the parties in question - where the real goals or ambitions of the parties involved are either not fully understood or, more usually, not fully explained.

Early assessments of and discussions with tenderers (or potential tenderers) and client teams should aim to clarify their willingness to co-operate in an open and honest way, particularly through willingness to share financial and quality performance information and measures which demonstrate continuous improvement. Performance management regimes will apply to the performance of individual partners and to the partnership as a whole.

Some key points to consider are:

- Co-operation
- Openness
- Shared standards
- Common objectives
- Respect for each partner organisation
- Trust

All partners must adopt the agreed cultural values if success is to be achieved and accept they will be tested to their limits during the life of the partnering arrangement.

5.5 Delivery Issues

LTP processes seek to develop longer term projections of budget and workload, but some degree of fluctuation is inevitable. How the risk of these fluctuations is allocated is very important in maintaining the viability of the arrangements. Although the private sector can deal with significant variations, efficiency will suffer if these changes are the result of poor forward planning and budget/funding provision.

As discussed earlier the delivery of public services is required to achieve continuous improvement and efficiencies. Therefore, 'standing still' is not an option and innovation will be essential. One of the perceived advantages of the delivery of highway services in partnership with the private sector is the innovation and latest thinking that private sector partners can bring. The case studies highlight that the private sector can be the main driving force behind innovative change – in one case it was seen as developing faster than the capacity of the partnership to absorb such changes. It is necessary to develop appropriate mechanisms to capture, evaluate and implement innovations. Considerations include:

- Selecting a partner who demonstrates an ability and willingness to seek innovations.
- Ensuring that the contract encourages, evaluates and rewards appropriate innovation i.e. which is of benefit to all parties.
- Establishing appropriate forums for evaluating those innovations that are viable and beneficial.
- Ensuring that the organisations have the desire and capacity to efficiently implement and absorb the innovations and changes in working practices.

A performance management regime is an essential component of any service delivery arrangement. It should not simply measure past performance but be used to incentivise and drive future improvements. It is important that this regime be linked to the objectives of the partnership to ensure that it is measuring the things that matter to the service and are really important to drive continuous improvement. Measures, including any proposed new Government indicators, should be critically appraised to ensure that they meet these criteria.

Consideration should be given to linking the achievement of appropriate performance measures to payment and reward. In any event, the performance management regime should be established at an early stage in the procurement process so that bidders are able to assess it as part of their bids and so that base data can be collected and processed before and during the early stages of the partnership. Indeed, the results of the soft market testing exercise can be invaluable in informing the development of the regime.

Partnerships for delivery of highway services have often focused on the relationships between the client and the main provider/contractor with little regard to the supply chain. Construction related work is often delivered via specialist contractors and suppliers, so to ignore their input and influence risks failing to fully develop the potential for service improvement.

A strategy for engaging with the whole supply chain therefore needs to be developed. This should ensure that their input into the design of projects and services is harnessed at an early stage and that incentives for increased performance are cascaded down the supply chain rather than stopping at the main contract level.

5.6 Client and Industry Collaboration

The vision behind the Highways Industry Strategy is for “Highways clients and supply chain partners working collaboratively to deliver efficient and continually improving highway services and infrastructure”. The seven strategic objectives are:

- Working closely with other delivery partners.
- Developing a consistent culture, based on the principles of partnering.
- Encouraging the use of collaborative contracts between individual local authorities (LAs) and between the Highways Agency and LAs.
- Encouraging operational collaboration.
- Identifying, sharing and promoting best practice.
- Developing a consistent approach to efficiency and performance measurement.
- Communicating effectively.

A series of projects to help deliver these objectives are either underway or planned and more detail is described within the strategy.

In parallel with the development of the Highways Industry Strategy, a scoping study was carried out between the local authorities in the South West of England and the Highways Agency which examined the possibility of a joint (HA / LA) collaborative highway maintenance contract.

That study concluded that significant efficiency gains were likely in terms of both cost savings and service improvements. Although start up costs would be incurred, savings of up to 10% were identified, while service benefits included:

- Improved planning and co-ordination of works.
- Improved response to incidents.
- Improved strategic risk management.
- Improved lines of communication.

The study further concluded that the approach was also applicable to smaller scale arrangements and in other regions. Several authorities are now engaged in or exploring collaborative working for various aspects of highway services and some are noted in the case studies.

Although a pre-contract arrangement in the SW was not achieved, some of the tenderers for the Highways Agency's recent Area 1 contract took on board the findings of the study – giving both the Agency and some local highway authorities in the SW the opportunity to make some significant efficiency gains.

Similarly, although broader than just highway services, nine councils in the north of England working with private sector partners have established the Roses Marketplace. The key principle underpinning this initiative is the desire of the councils to collaborate so that they can work with a common supplier base, sharing best practice and risk.

Achieving this would produce both efficiency and customer service benefits therefore such collaborative objectives should apply to all highway authorities. Some opportunities will be most applicable to neighbouring or regional authorities, where strategies and management issues can be dealt with effectively e.g understanding and managing local demand.

5.7 Procurement Management and Resources

The efficiency agenda has raised the profile and importance of procurement and many authorities have reinforced their corporate procurement resources. This has often created tensions with those service directorates that already have extensive / specialist procurement experience and corporate and service skills may need to be realigned.

The objective must be to implement a procurement strategy that will efficiently and effectively deliver policy objectives in a manner that is practically deliverable by service managers. Shared strategy development through good communications and stakeholder engagement are key issues.

An effective balance may be achieved by service led procurement strategy development and delivery supported but not dictated by robust corporate challenge and audit.

6. Key Findings and Messages

6.1 General

- 6.1.1 Change has been, and will continue to be, a constant factor in local government. The main emphasis in future reform initiatives seems likely to focus on local leadership to achieve improvements to the quality, efficiency and effectiveness of customer focussed local services delivery. These challenges are similar to those currently posed by the Gershon Efficiency agenda – which will also remain a key driver for the foreseeable future.
- 6.1.2 The move to ‘whole of government accounting’ and the consequent need to value and manage the highway as a major asset (by far the largest single asset managed by local government) has raised the importance of local roads management. Highway asset registers, and the condition and value of local roads on each authority’s balance sheet, will become key issues.
- 6.1.3 Improving procurement and delivery of highway services is key to meeting the current and future challenges.
- 6.1.4 Procurement is broader than the preparation and management of a contract; it is a cyclical process of robust planning, service delivery updating, enhancing both innovation and performance, carrying out routine and strategic reviews and delivering continuous improvement.
- 6.1.5 The highways services market is strong and keen to participate, with each other and with highways clients, to deliver more effective and efficient strategic and local highways services. Local highway authorities are increasingly seeking support from and engagement with the private sector to deliver improved services.
- 6.1.6 Whilst individual authorities are developing new and improving methods of service delivery, as some of the case studies illustrate, these improvements are not being carried out in a co-ordinated way. Although the overall extent of collaboration between authorities is increasing, at this stage this appears to be more in terms of policy alignment than in alignment of procurement or delivery processes, particularly between adjacent authorities.

6.2 Operational

- 6.2.1 Good forward planning, plus flexibility of procurement and delivery arrangements, is essential, i.e. the contracts should be capable of development and continuous improvement during their life.
- 6.2.2 Having a procurement strategy that is aligned to the authority’s policies and strategic objectives combined with strategic investment decisions (i.e. using whole life costing and planned rather than reactive maintenance) is the key to achieving greater efficiencies and

more effective delivery. The procurement model, whilst important in achieving this alignment, is less important than this overall approach.

6.2.3 There is evidence, including from the work of the Highways Agency, that larger and better-coordinated procurement packages can produce significantly greater efficiency gains.

6.2.4 Some progress is being made towards the use of outcome instead of input driven specifications but primarily for discrete service areas rather than to drive greater client collaboration. The introduction of the “Toolkit for Local Transport Efficiency Gains” should help to encourage greater focus on outcome specifications and measures.

6.2.5 A wide range of delivery solutions exist across local highway authorities but clear trends are evident:

- Partnerships & alliances are replacing traditional contracts.
- There is some focus on (interest in) complete outsourcing of delivery management, with the retention only of business planning and strategic management skills ‘in house’.
- Arrangements are longer term.
- Performance management and incentivisation mechanisms continue to be developed.
- One-stop customer shops are emerging (actual or virtual).

6.2.6 Experience from local highway authorities which have developed partnerships and alliances suggests that:

- The NEC/ECC form of contract is effective in enabling strong partnership relationships to develop.
- Partnership working can be extremely effective and to succeed it requires clear shared goals, openness, trust and co-operation, with aligned cultures and sustained commitment and energy.
- Strong performance management regimes, with performance measures clear at the time of tender but with sufficient flexibility to enable change during the contract period, are one of the keys to strong partnership development and to the delivery of successful outcomes and continual improvement.
- Fragmented client, consultant, contractor roles tend to produce higher overheads and inefficient processes.
- Co-location has practical difficulties but several authorities have overcome these and are convinced that the effort is worthwhile.
- Market testing is now more widespread amongst local highway authorities. Understanding what the market expects and what it can deliver, then reflecting that in procurement strategies, yields long-term benefits.
- 75:25 Quality:Price tender assessment is now typical however not all authorities have linked quality submissions to delivery commitments. Tender method statements should, where possible, be made contractual.
- Strategic partnership management, through partnership boards, is being adopted more frequently as a key driver for partnership delivery.

- Good partnership arrangements and relationships with another organisation are often the catalyst or provide the vehicle for exploiting wider opportunities, which might not otherwise be possible.

6.2.7 There is wide recognition that closer engagement with the whole supply chain is important, but as yet there is little evidence of fully integrated supply chains

6.3 Strategic

6.3.1 There is a fundamental need for greater uniformity across all local highway authorities, by removing the need to individually amend currently inappropriate documents and by preparing and adopting:

- Comprehensive standards and specifications for the types of road pavements and carriageways managed locally: e.g. estate roads, urban roads including bus routes and rural single carriageways;
- Standardised model contract documents.

6.3.2 Effective and efficient highway asset management, and associated highway services delivery, will require comprehensive and informed long term planning with clarity about future capital and revenue requirements and budgets. In particular this will require:

- Highways investment decision making that is aligned to the impact on the local authority balance sheet, i.e. when making sub optimal investment decisions;
- An investment tool that will allow whole life costs and benefits of alternative options to be uniformly assessed (i.e. with time and across different authorities) – e.g. UKPMS or HAPMS.

6.3.3 There are considerable customer, as well as efficiency benefits, to be gained by developing greater uniformity of approaches between authorities, particularly regarding asset management strategies and plans across local authority boundaries.

6.3.4 As well as increased uniformity, managing overall public sector demand is critical to delivering improved efficiency through the supply chain e.g. by more evenly spreading the contract opportunities coming to the market. This will require more collaboration particularly between adjacent authorities and indicates the need for more central (e.g. regional) coordination of the development of forward (investment and procurement) programmes.

6.3.5 These challenges present the best opportunity for many years to improve the efficiency, effectiveness and quality of local roads and local highway services delivery.

Annex: Highway Authority Case Studies

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Barnsley Metropolitan Borough Council

1. Summary of arrangements

Model/Client Role	In-house delivery for term maintenance and design with top up and individual contracting arrangements for specialist works and services.
Scope	All highway services excluding major capital projects, including street lighting and winter maintenance.
Form of Contract	ICE 6th or 7th for smaller works, NEC for larger contracts. ACE form for professional services.
Start Date	TMC Works: 1997, reviewed in 2001 and 2003. Design: 1999, reviewed 2001 and 2003.
Duration	Works: 3 + 2 reviewed and extended to 2005/06 Design: 3 + 1 reviewed and extended to 2005/06
Approximate Value	Works: £10m/annum Design: £3m/annum
Incentivisation	Measured financial and quality performance against continuous improvement targets, reviewed quarterly.

2. Background

In the late 1990's both the in-house works and design services were successful in competitively tendering for the highway services and have been trading since that time. In 1999/2000 the highways function was extensively restructured, merging client and contractor functions and removing duplication at all levels of the organisation.

In 2001 the Borough Council carried out Best Value policy and service reviews in three categories – the 'Fabric', the 'Flow' and the 'Illumination' of the network – which together covered all highway functions. The review backdrop was a past funding differential where local roads had suffered at the expense of the principal network and thus the spend level of reactive (compared to planned) maintenance on local roads had reached 80% of the works budget. There were also concerns over the high level of complaints and third party insurance claims attributed to limited planned maintenance spend on B, C and unclassified roads and associated footways. The updated performance management systems based on national and local indicators, and adopted by all South Yorkshire authorities, confirmed the declining asset condition and highlighted the main problem areas.

In March 2001 a five year improvement plan was put in place to be monitored through annual service delivery plans. These plans sought to address the findings of the reviews and took onboard audit commission recommendations of more targeted planned maintenance programmes and a mechanism to achieve these improvements on a "worst first" basis. Allied to this was the strengthening of the works co-ordination role, particularly with utilities, to ensure that any investment in resurfacing was not compromised by trench reinstatements soon after completion. This strategy covered

all aspects of service delivery with the exception of the construction of major capital projects (between £5.5m and £17m), which were to be procured on an individual basis.

Improvement targets were set, such as a reduction from 80% to 16% of reactive maintenance spend on highway works. Capital investment was refocused towards strategic rather than short term measures. Another main target, included within the council's Local Public Service Agreement, was for significant improvements in the condition of footways - the main source of third party insurance claims.

Alongside the maintenance backlog and budget pressures, the demands for dealing with environmental issues were increasing and efficiencies targets were set to help fund the additional costs of more sustainable solutions.

3. Discussion

Although wholesale outsourcing was not being proposed, significant performance improvements were expected to justify continuance of the in-house trading unit approach. The five year service delivery plan was still based on in-house professional services and the Direct Labour Organisations (DLO) delivery but recognised that some specialist activities, which could not be best delivered internally (either for capacity, efficiency or quality reasons), were to be supplemented with individual top up arrangements.

In 2004/5, to address the structural condition of the principal highway network and the poor condition of street lighting columns (1/3 requiring replacement) the Council decided to adopt prudential borrowing for these elements of the highway asset.

This injection of additional funds was combined with a strategy to reduce reactive and increase planned maintenance and to adopt a whole-life maintenance regime. This regime considered a range of assessments (such as UKPMS) and better targeted, needs based measures. Specific decisions were to be based on a balanced assessment of all LTP objectives and greater emphasis placed on customer perceptions and feedback.

Furthermore, the opportunity was taken to adopt an holistic approach to projects by looking more broadly at all asset elements within a site rather than restricting this to specific repairs.

In the first 2 years of trading, the new business and commercialisation strategy has led to an increase in the workforce of approximately 20% reflected by an increased turnover for the DLO from £7m to £10m. Proportional overheads were reduced and these efficiencies were used to reduce the unit costs within the Schedule of Rates reimbursement system. Between the 2000/2001 baseline year and 2004/05, contract rates fell by over 25%.

Barnsley Borough Council works with Doncaster, Rotherham and Sheffield as the South Yorkshire LTP consortium and this has led to an information sharing network for 'best practice' service solutions. Working with the Regional Centre of Excellence, the consortium has extended the original remit and is now examining collaborative working between the authorities, considering single common processes for key services. The first stage is an assessment process to determine which service areas can most readily adopt a common approach, possibly procured through one or more regional contracts of up to 7 years duration.

The key issues that need to be addressed by the consortium have been categorised as political, financial and procurement programming. Robust, appropriate risk transfer is seen as vital to be able to determine the most appropriate procurement solutions. An example of this arose whilst considering a DBFO contract for traffic signal installations with a common output based specification and, through market consultation, a range of ideas are being explored which balance cost and risk for various transfer models.

4. Learning Points

Needs based performance assessment measures are in place, based on policy priorities and service needs.

A recent review noted that the backlog of defects on footways has been reduced from approximately 9.0/km to 0.5/km and carriageway defects from 7.0/km to 3.2/km. The number of third party insurance claims has been reduced by 70%. The scale of these service improvements has taken the council into the PSA reward band resulting in further additional funding.

These examples confirm that significant achievements have been made over the last five years helping to justify the strategy, although the improvements are due to a both efficiencies and additional resources.

The strategic planning approach was based on a longer term vision than previous plans and included a more in depth SWOT analysis. This has proved to be an effective management process that will be repeated.

The stronger business focus and expansion of the in-house services has increased staff motivation at all levels of the organisation. The political and managerial confidence for in-house services has increased; this has led to greater support for further business development to achieve further efficiencies and quality gains.

The Council is comfortable with the mixed economy of in-house delivery with top up arrangements for specific specialist service areas rather than whole service outsourcing but will continue to test and review this model.

The five year strategy and action plan is approaching its end and the contracts will be reviewed during this financial year. While there are no plans at this stage to change the procurement model, market testing will be carried out and future client collaboration plans may also influence the longer term arrangements.

Well targeted investments based on a broad balance of service levels and whole life asset considerations have increased efficiency and produced more effective services.

Although the South Yorkshire consortium arrangements are still developing, there is a growing expectation that this will produce worthwhile benefits to both service efficiency and service quality. In addition to efficiency gains, the process will also examine how co-ordinated procurement may be used to help smooth market capacity issues and stimulate increased competition.

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Bedfordshire County Council

1. Summary of arrangements

Model/Client Role	Single Manage and Construct package contract with retained Traffic Manager and NRSWA administration roles.
Scope	All highway structural and routine maintenance, capital projects (<£0.5m) design and transportation services.
Form of Contract	Bespoke based on the HA MAC contract
Start Date	October 2005
Duration	Maximum of 10.5 years (5.5 plus annual extensions)
Approximate Value	£24.0m/annum
Incentivisation	Contract extensions Shared innovation savings

2. Background

In 2002 the County Council carried out a Best Value Review of their highway design and construction services. At that time services were delivered through separate externalised works, design and management contracts, directed by an ‘in house’ client.

The fragmented client, consultant and contractor roles had resulted in high administrative overheads, prolonged timescales and onerous processes to deliver the services through the three separate organisations. Lack of public clarity regarding “who does what” was also an issue.

3. Discussion

An internal workshop started with the premise that the provider should be clearly responsible for outcomes and that the public should be presented with a “one-stop shop” point of contact. The future service delivery objectives were defined which were to inform the planned engagement of consultants and contractors.

A second workshop with the private sector explored what the market expected and what the market could deliver, covering a range of options for partnership arrangements, incentivising, forms of contract and several service quality issues. Consensus was not always obvious and the workshop was supplemented by one-to-one meetings with supplier organisations to confidentially draw out innovative ideas.

Members wanted high quality, affordable services at a competitive price and the invitation for expressions of interest indicated a strong preference for a single organisation provider.

The first stage selection process included a weighted assessment of 20 quality

issues. The final assessment, based upon a 75:25 quality:price weighting, resulted in a narrow quality range but a wide spread of prices. The tendered delivery (quality) proposals of the winning bidder became contractual obligations.

Evidence from the tenderers of working in successful partnerships and/or joint ventures, as well as experience of cultural alignment and understanding of client values, was assessed. This was validated by site visits and interviews with clients of existing contracts. This approach also enabled judgements to be made regarding the closeness of alignment of bid partners.

At a time of increasing public awareness and concern over road condition and trends, the client was looking to secure a realistic price as opposed to the lowest bid.

The chosen form of contract was the Highways Agency MAC document modified to include more client functions and for a different payment mechanism.

The contract, awarded to Amey, started in October 2005 with an estimated value of approximately £120 million over the initial 66 month period excluding the potential for the award of additional major improvement and maintenance works.

4. Learning Points

Few industry examples were found where target costs worked well for small individual schemes. Payment therefore was based on a Schedule of Rates but, to avoid unnecessary administration, lump sum reimbursement is used for appropriate activities.

While performance measures were substantially defined at tender stage, the final details of 42 performance indicators were agreed during the first few months of the new contract. As contract extensions would be awarded on the basis of performance, the new arrangements were given 6 months to bed-in before the measures were recorded. To aid contractor planning and investment decisions, early notice will be given of the award of any extensions.

A single provider (MAC) model was the preferred delivery arrangement to improve clarity of responsibilities and present a clear public interface. In addition, it was also recognised that this approach would deliver time and cost savings through less complex multi-organisation procedures and processes. An early estimate of those time and cost savings that would result from this contract was in the order of 8%. Within the first six months of the contract, however, actual efficiency gains achieved have been closer to 15%.

The contractor is required to participate in the national design and works benchmarking clubs.

Innovation is encouraged and expected from the contractor. A specific “innovation and improvement co-ordinator” post has been created and there is an incentive of shared savings. A simple example of how this is already working in practice is the move from a method specification to a performance specification for gully cleansing.

The partnership arrangement has also allowed Amey to contribute to Bedfordshire's wider business improvements, such as input into the next Local Transport Plan and support for developing Highway Asset Management Plans.

The five month mobilisation period was compromised by delays in TUPE transfer decisions.

The acquisition of new office premises for co-location with the client was a major exercise but is felt to have provided significant practical benefits.

The relatively small core client is being extended slightly (from 6 to 9 people) and will include strategic project management, accountancy and audit functions.

Achieving the "right relationship" was always recognised as a vital aspect of successful delivery performance particularly with only one supplier. The commitment by each organisation to achieving mutual benefits is demonstrated by the client's support for Amey for other local bids which, if successful, may help Bedfordshire through achieving economies of scale.

There were some difficulties with work handover. The previous consultant's project managers were directed to take schemes to logical break points before the new contract start date which resulted in a short vacuum and some abortive design work because not all projects achieved natural break points.

The service provider plans to rotate individual members of staff between policy and delivery roles, to help ensure increased learning and shared values between these two disciplines.

Bedfordshire has a well-established customer contact centre used as the prime interface for public enquiries but this will need to be adapted to link with the new contract arrangements and deal effectively with highway related public queries.

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Dorset County Council

1. Summary of arrangements

Model/Client Role	Two-way mutual top up arrangements, for both works and professional services, under separate contracts.
Scope	Highway, transport and bridge design services. Routine and structural maintenance construction up to £150k
Form of Contract	Works: ICE 5th Design: NEC Professional Services
Start Date	Works: 2002, Design: 2004
Duration	Works: maximum of 7 years (2yrs+annual extensions), Design: maximum of 6 years (3yrs+annual extensions)
Approximate Value	Works: £3.5m / annum, Design: £300k / annum
Incentivisation	Contract extensions

2. Background

In the 1990s, with reducing workloads and Compulsory Competitive Tendering on the horizon, Dorset considered externalising its highway design capacity. However, an alternative strategy led to the retention of internal core skills within Dorset Engineering Consultancy (DEC) and, in 1999, the decision was made to appoint a private sector partner to help manage the peaks and troughs of the 'professional services' workload.

Following discussions with three consultants under a central government Pilot Partnership Network, Buro Happold were appointed under an arrangement where either party could perform work for the other; there was no contract and no workload guarantee but an overarching Memorandum of Understanding was agreed. The arrangement became a demonstration project to further the Rethinking Construction initiative. In addition to Buro Happold, a few specialist consultants were also appointed.

In the early years, the work carried out by each party for the other was at a relatively low level and approximately balanced. In 2001 however, the increased demands associated with LTP1 resulted in a considerable increase in work for Buro Happold and little DEC capacity for reciprocal work.

Following the LTP1 settlement, Dorset Works Organisation (DWO) believed it too was in a strong position to similarly engage with the private sector. Whilst the arrangement was also to be based on a Memorandum of Understanding, with a reciprocal working arrangement, the value of the works required an advertisement in the European Journal.

The pathfinder arrangement between DEC and Buro Happold expired in 2004 and DEC also considered that the value was now at a level that required competitive procurement.

3. Discussion

The procurement process developed for DWO followed a consultation with key highway maintenance and improvement contractors. The first stage assessment produced a shortlist based purely on quality. The second stage required a presentation to a select panel and two organisations were taken forward to the final stage. Those candidates were invited to offer a percentage adjustment against the existing DWO Term Maintenance contract rates followed by negotiations to develop reciprocal working, the sharing of resources and possible future opportunities for joint working. Hanson Construction Projects were the successful bidder and DWO demonstrated Best Value by matching the successful contractor's rates, which, subject to inflation, will stand for the duration of the contract.

DEC chose to pursue a similar top up arrangement to the one it was already using successfully and developed a contract which built on that experience. Tenderers were invited to submit a draft overarching Memorandum of Understanding setting out their aspirations for the development of the partnership under a series of prescribed headings. Commissions would be made on an individual project basis using a form based on the NEC Professional Services contract, with payment through time charges. Tender assessment was 70:30 (Quality:Price) and was won by Buro Happold.

There are partnership boards for both DEC/Buro Happold and for DWO/Hanson Construction Projects. The Head of DWO and the Head of DEC sit on both boards to ensure integration and shared learning. The central personalities in the partnerships have been in place for the whole duration of the arrangements and have forged excellent working relationships.

The reciprocal arrangement continues to allow DEC to carry out work for Buro Happold; although currently on a very small scale this may grow if the DEC programmes decline. In contrast, DWO undertake a significant amount of work for Hanson Construction Projects primarily through the production of signs, landscaping, vehicle servicing and routine highway maintenance and this continues to meet any capacity 'gaps' the DWO may have.

Hanson Construction Projects has afforded a great deal of flexibility for DWO. Working in partnership has enabled DWO to lead on some large schemes where a target cost is developed based on the partnership Term Contract rates, modified to suit the scale of the project.

Performance of both partnerships is monitored through the Highways Design and Highways Works Best Value Benchmarking Clubs which enables comparison with other authorities throughout the UK. There is no guaranteed work for either private sector partner, which provides an incentive for the private sector to perform well on each commission. Formal contract extensions will also be awarded on the basis of performance.

4. Learning Points

A greater degree of integration is required between the design and works functions and it is planned to achieve this through process re-engineering as opposed to a

single strategic partnership with a single provider. This approach aims to achieve a 'best in class' approach balanced with economies of scale.

The arrangements have demonstrated that a strategic but relatively straightforward top-up can be very beneficial to both parties.

Difficulties are most effectively dealt with in an open honest, and non-defensive manner.

Excellent partnering relationships at operational and strategic levels have developed with a focus on service delivery, not commercial turnover, with the same senior personnel in place.

DEC and DWO have achieved resource flexibility and been able to maintain a sustainable level of local skills and expertise. It is able to resource peaks and manage troughs externally, providing a degree of security and broader experiences for staff.

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Durham County Council

1. Summary of arrangements

Model/Client Role	Strategic alliance top up framework with a lead contractor managing the wider supply chain and two consultants supporting the in-house design teams.
Scope	Capital and maintenance works plus design services
Form of Contract	PPC 2000
Start Date	October 2002
Duration	Up to 7 years (5+2)
Approximate Value	£30m/annum
Incentivisation	Contract Extensions Target Cost Bonus Payments

2. Background

Until 2002, Durham procured highway services mainly on a lowest cost basis, using forms of contract that often resulted in adversarial behaviour. Also, these forms of contract did not offer significant incentives to achieve continuous improvement and unforeseen cost increases were frequent.

Durham explored the opportunities emerging from the Rethinking Construction initiative and concluded that substantial improvements could be achieved through early integration of project contributors and through wider team integration. They are believed to be the first local authority to adopt, on such a wide scale, the standard form of Project Partnering Contract (PPC 2000), which had been developed in line with Sir John Egan's Construction Task Force, and was suitable for engaging several suppliers under one contract.

In October 2002, Durham County Council entered into a Strategic Alliance for a range of civil engineering & environmental works with a Joint Venture consortium of companies. Balfour Beatty Civil Engineering led this JV along with Cumbrian Industrials, Ringway Highway Services and Service Direct as partners. Alongside the in-house design teams, both Capita Symonds and Jacobs Babbie supply design services. Although both are members of the consortium, they operate outside of the JV.

3. Discussion

The award of the highways and infrastructure works and maintenance contract was on a 70:30 quality:price basis and was one of the early pathfinder projects overseen by the ODPM Strategic Partnering Taskforce. The contract value was estimated at that time at approximately £110 million over five years with the possibility of a two-year extension. The main objectives of the arrangement were to:

- Reduce both capital and whole-life costs
- Reduce design, supply and construction timescales
- Increase the predictability of time and cost
- Reduce the number of design and construction defects
- Increase productivity
- Improve service quality standards
- Improve the sustainability of solutions

Individual project commissions are awarded on a Target Cost basis with an agreed maximum price and this mechanism is used to determine bonus payments. At the outset, little national or regional benchmarking data was available which brought some difficulties and required significant effort to set reasonable, fair and realistic targets; this process has been developed but the County Council is now looking for a more meaningful benchmarking process.

An Alliance Board has been established to oversee the strategic management and development of the partnership which is now delivering approximately £30m / year of services for a mix of LTP and non LTP work.

Greater integration of client and supplier teams has been achieved for construction operations than for design work and, although the overall value of work delivered through the alliance has increased, the majority of design related work is still delivered in-house. This issue will be considered for future arrangements, as well as building on the success of short term staff secondments from the consultants to the in-house teams.

4. Learning Points

Although performance management processes continue to be developed it would have been preferable to establish a performance benchmark at the start of the alliance. However, there is strong evidence of improved delivery of those programmes of work set out in the first LTP.

Although the client believes that both consultants and contractors had a good understanding of the County Council's overall vision for the partnership arrangement, during the tender process the cultural fit and capability of the various organisations was examined more for some service areas than others. For future procurement this would be more widely examined.

The Procurement Board has been successful in most respects however, the appointment of a Partnership Director might help to 'champion' the benefits of a virtual single service provider.

The alliance has been successful at addressing and delivering innovations for the Council's strong focus and priority for environmental and sustainability issues. Balfour Beatty has been particularly pro-active in introducing innovative approaches.

Despite establishing a one-stop-shop for the public interface customers still want to talk directly to the Council. Durham are still exploring how this can be achieved within the alliance arrangement.

Since the introduction of the Alliance an average project cost saving of 4% below target has been achieved. This equates to an accumulated saving of greater than £700,000, in three years. Additional savings have been realised through early contractor involvement and value engineering. Value engineering, previously applied only to major schemes, has been refined and extended to most projects delivered through the alliance resulting in examples of individual project savings of up to 20% based on target cost.

Concerns existed over the resources required to manage and control works programmes and other alliance operational costs. These were quantified and were found to be considerably less than the savings that had been achieved. However, the relevant business processes are being further scrutinised to identify inefficiencies and opportunities for cost reductions.

Durham County Council is now considering either extending the existing arrangements or trying a new procurement approach. Although the alliance has delivered significant benefits and improvements, the type and volume of future workload will be an important factor in this planning process. The inclusion of other related service areas and a different balance of in-house / private sector resources will also be important considerations in this review.

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London Borough of Enfield

1. Summary of arrangements

Model/Client Role	Currently in-house consultant with several small works contracts, moving to a single term maintenance contract.
Scope	Initially routine, programmed and winter maintenance. Consultancy services to be considered as a second stage.
Form of Contract	NEC Term Maintenance Form
Start Date	Planned for October 2006
Duration	Maximum of 5 years (3+1+1)
Approximate Value	£14m/annum
Incentivisation	Contract extensions

2. Background

In the 1990's the Council's highways and transport services were downsized as a result of the loss of trunk road agency work and GLC/TfL developments. However, a strong in-house design team was retained at a level below that required to be subjected to Compulsory Competitive tendering. A series of 10 small works Term Maintenance Contracts were also entered into each delivering different aspects of maintenance operations and small capital works.

The large number of small works contracts brought with them a large contract administration and management burden for the Council. In 2001 this, together with company mergers and acquisitions that had changed the market, led the Council to rationalise to three the number of works contracts for all construction projects while retaining a direct labour team for winter and routine maintenance together with the in-house design team.

Driven by the commitment to continuous improvement, in 2004/05 a study was commissioned to explore the opportunities for delivering highway construction works services through a partnership arrangement with the private sector. That study concluded that such an arrangement could realise a range of benefits including efficiencies, service flexibility and capital investment.

3. Discussion

Another major issue now facing Enfield Council is that to continue with the winter maintenance operations, major investment is required to be able to update the ageing fleet of plant and vehicles. Additionally, the existing works depot is in a location that has been developed into a largely residential area raising the issue of noise disturbance and also providing the opportunity for a large capital receipt by disposal at residential values. This would of course require a new site and the construction of new depot facilities.

As part of the development of a longer term strategy, several options for the delivery of both consultancy and works services have been considered. This analysis has included a range of models including traditional contract options, partnership focused arrangements and joint venture opportunities. Member consultation indicated some concerns over large scale externalisation and risk analysis identified the need to retain flexibility to cope with future budget variations.

Enfield's investment into highway improvements and maintenance has increased significantly in recent years, and even higher levels of funding are planned for the next two years, before falling back to levels similar to the current spend. The recent additional resource allocations were focused on specific improvement objectives which included upgrading the standard of footways.

A market testing exercise conducted by the Council revealed a strong interest in the Council's preliminary plans confirmed by a good initial response to the OJEU notice. However, due to the commitments of potential bidders and because of industry mergers, that interest fell sharply at tender stage.

Early stage interviews were designed to produce a final shortlist and to minimise the up front effort and costs to bidders. The current position is that the 4 short listed contractors are preparing their second stage submissions and an award in August 2006 is anticipated.

4. Learning Points

The soft market testing of the works function was used to develop a plan for a phased introduction of a partnership arrangement for all highways works.

The high past performance of the in-house highway winter maintenance function had raised concerns over the ability of the private sector to maintain that quality of service, but the need for significant investment to deal with the ageing plant and depot problems has led to the private sector option being taken forward.

Effective contract management is also a key consideration for the Council and the recent publication of the Term Maintenance form within the NEC collection of contracts is to be adopted in preference to the ICE 7th edition which is currently in wide use across the service. Progress is on track for an October 2006 start for the new works contract which will involve a TUPE transfer of council staff.

Although the scale and duration of the planned contract is relatively small, this is seen as the first stage of a broader, longer term strategy. PFI and/or borrowing under the prudential code may form part of that strategy.

To deal with the further increases in specific budgets, designs have already been accelerated in preparation for the works contract. However, given the investment requirements and depot situation, the planned three month mobilisation period is recognised as short and interim arrangements may prove necessary.

When design services are reconsidered, the need for an adequate client capacity will be taken into full consideration and both IT and communications are also seen as important issues. The benefits of co-location are acknowledged and any future proposal would be considered as part of the imminent council wide property review.

Early stage discussions concerning potential opportunities for client collaboration with neighbouring boroughs and with TfL are taking place and may in time prove to be significant. Member opinions will be revisited after the recent May elections. Both of these factors have influenced the limited initial scope and duration of the planned contract.

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Hertfordshire County Council

1. Summary of arrangements

Model/Client Role	Alliance with separate outsourced works and consultancy contracts.
Scope	All maintenance and project works up to EU threshold of approx £3.5m. All design consultancy.
Form of Contract	Based on NEC
Start Date	October 2002
Duration	Maximum of 10 years (annual break points after year 3 and up to 3 years extension after year 7)
Approximate Value	Works: currently £50 m / annum Consultancy: currently £13 m / annum
Incentivisation	Contract extensions Bonus payments based on annual assessments

2. Background

In the 1990s the county had 10 district agencies, an in house consultancy, a term maintenance contract with its direct works organisation and many spot contracts. The term maintenance contract was tendered in 1994 and the direct works organisation voluntarily outsourced. By 1996 the consultancy was operating as a trading unit and a client consultant split introduced. In 1997, at the end of compulsory competitive tendering, a consultancy contract had been let and the in house consultancy also voluntarily outsourced.

In parallel with these contractual changes, district agency arrangements were also changing. Hertfordshire remained two-tier and unchanged in size during local government reorganisation in the 1990s. Highways partnerships were formed with the districts as combined County Council and District Council units, located in District Council offices. Progressively, several districts subsequently dropped their agency works contracts with the work being taken over by the County Council.

3. Discussion

Hertfordshire wished to embrace the Rethinking Construction principles to: improve accessibility for citizens; achieve efficiencies; remove duplication; and develop an asset management approach. It visited other authorities and held a series of workshops with existing providers to discuss possible approaches, including performance management and the potential impact on local industry.

The Council wanted to give equal influence to designers and contractors and therefore chose not to combine works and design contracts. It also wished to minimise the number of long term contracts and therefore decided to combine all

its existing separate works contracts into one. Outcome specifications were considered and adopted for grass cutting but were otherwise felt too difficult to specify before the contract was well established. Inspection and reactive repair responsibilities were placed within the works contract but with budget control retained by Hertfordshire County Council.

Expressions of interest were invited in 2001 for countywide consultancy and works contracts. Tenders were evaluated on the basis of 70:30 Quality:Price. A consultancy contract was awarded to Mouchel Parkman (MP) and a works contract to a joint venture between Amey and Lafarge (AL), both starting in October 2002. A series of existing contracts were terminated or extended to achieve a common start date for the new contracts. All District agencies were also terminated. The new contract periods were for three years' duration with annual extensions (subject to satisfactory performance) up to seven years with the possibility of a further 3 years at HCC's discretion.

The scope of the consultancy contract was for all work and the contract for works for all construction projects (apart from traffic signals) up to the EU threshold of approx £3.5m. The works contract pricing mechanisms are: lump sum against an inventory for cyclic maintenance; schedules of rates for reactive maintenance and small schemes; and target price (based on tendered model schemes) for schemes over £120k.

The Hertfordshire Highways (HH) alliance (client, consultant and contractor) has established a series of joint Boards which are:

- An informal group of senior directors meets at two to three month intervals to develop the vision. This group is occasionally called to meet the political leadership.
- A Strategic Board chaired by the council representative includes executive members from HCC, MP and one each for Amey and Lafarge. Senior operational managers attend but do not have a formal role. The Board meets monthly. It sets targets, signs off the alliance business plan and monitors progress.
- An Operations Board of senior operational managers meets monthly. The Board has been mainly focused on joint working and performance management of the two contracts and is now moving to performance management of the service.

There have been issues that have proved difficult to resolve with three equal partners and without a mechanism to take an overview. In 2005 a jointly funded alliance manager was appointed to chair the Operations Board and to lead the Alliance as a whole. Line management for all partners was considered as an element of this post but it was decided that such a role over independent companies would not be possible. The manager was therefore appointed as an HCC employee.

HH is a large service with approx 450 works employees, 280 consultancy employees and 200 client staff. AL also use subcontractors for target cost schemes using both local firms and firms from outside the area. Early concerns about the impact on local business do not appear to be material.

A locally developed performance management system is used. Incentives include contract extensions and bonus payments based on annual assessments. HH is developing a balanced scorecard to assess service performance as perceived by the service user (as opposed to being defined by the professionals or an individual partner).

Branding and publicity of HH and the introduction of a call centre within the Council brought the service into public focus, raised expectations, and resulted in significantly increased demands for reactive work, which have needed careful control.

The contracts have review processes to allow change but new demands such as the need to identify Gershon efficiencies have increased the scale of the challenge.

4. Learning Points

A publicity campaign to 'brand' the new service delivery arrangements was effective in notifying the public and raising awareness about contact details.

Partnership Boards are an effective way to manage an alliance, but the number of Boards and the meeting frequency should be kept to a minimum - consistent with good governance.

A number of issues, some associated with the complex (TUPE) transfer process, disrupted works delivery and the first 18 months were difficult. The transition plan would have benefited from more proactive planning and improved contingency arrangements.

Long term contracts and minimising the number of contract interfaces within an alliance creates efficiency and also demands that contracts have robust change mechanisms.

People are the key to successful partnership working. Some change should be expected in any long term arrangement but stability of key staff – both senior and middle managers – helps with focus.

The separation of roles between client, consultant and contractor has led to much narrower job descriptions, which has caused problems with career development and recruitment, particularly in the current job market.

An alliance manager with an independent overview is a powerful concept. It is important to carefully consider accountability and line management responsibilities.

Target cost model schemes priced at the beginning of a long-term arrangement demand flexibility as circumstances change. Certainty of price needs to be balanced against an ability to retest the market.

5. Contact

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Leeds City Council

1. Summary of arrangements

Model/Client Role	Design and professional services partnership.
Scope	Capital and maintenance works plus design services.
Form of Contract	DLO: bespoke Schedule of Rates: bespoke, based on ICE 7th Design & Build packages: ICE 7th Major projects: mainly ICE 7th and NEC
Start Date	Strategic partnership: 2003 Schedule of Rates and Package Contracts: 2005
Duration	Design: 3 years with the option of a 2 year extension Works: 2 years for Schedule of Rates and Package contracts (plus various individual contracts).
Approximate Value	Professional Services: £1.5m/annum Works: £7.5m/annum
Incentivisation	Continuous improvement for design services. Repeat work for works contracts.

2. Background

The city of Leeds has experienced exceptional levels of development and growth over the last decade bringing increased pressure on the transport infrastructure but also high levels of development funding opportunities. Developer funding provides approximately 1/3 of the current design programme budgets and the rate of development growth continues.

In 2003 the city council carried out major corporate and best value reviews which led to restructuring based on new priorities such as major development issues and the street scene environment. This resulted in the abolition of the Highways and Transportation Department with the functions being divided between two new departments. Transport policy, UTC and highway improvements were merged with planning, development control and economic development services to form the Development Department and highway maintenance and traffic management etc were merged with street cleansing as the City Services Department.

Future transport needs were linked more closely with strategic planning but the key transport proposal, central to most of the cities transport and several other strategies, was the proposed Supertram system. The subsequent government decision not to proceed with this mass transit project necessitated a major rethink. The emerging solution will almost certainly focus on major investment for the upgrade and extension of bus based public transport.

3. Discussion

In September 2003 the City Council entered into its first major 'strategic' partnership with the Private Sector. This was for all highway related professional services across the Council for a period of three years with the option of a two year extension. The successful bidder was Mouchel Parkman and this arrangement maintained existing in-house skills and resources while providing additional capacity and a different kind of expertise.

It has also provided resource flexibility, recognised as a vital feature to manage the less predictable and large proportion of development led projects. Although work flow management must still deal with numerous short notice variations, there is a better prospect of mobilising additional resources more readily through the partners larger organisation.

Local offices were considered to be an important feature to guarantee success of strategic partnership. Mouchel Parkman has achieved this by establishing a new office in Leeds and joint, co-located teams deliver certain projects.

A joint project board supported by a Joint Steering Group has been established to manage the partnership.

A wide range of procurement arrangements are in place for construction services reflecting the council's commitment to exploring new ways of working.

The Direct Labour Organisation provides the bulk of routine and reactive maintenance works. Term contractors are engaged through schedule of rates contracts to supplement the DLO. Additionally, two contractors have been appointed for packages of design and build highway maintenance projects.

Larger projects are procured on an individual basis. For these works, the NEC form of contract has been trialled on a small number of these projects but no significant benefits were identified which would justify a move from the more familiar ICE 7th edition.

Stage 7 of the Leeds Inner Ring Road (which will provide the missing link between the ring road and the M621 motorway) suffered severe delays as a result of abortive work when the proposed PFI funding mechanism proved inappropriate. Although some design was complete, the subsequent early contractor involvement allowed a multi skilled design team to be formed comprising council, consultant and contractors staff, bringing together a wide mix of skills on this £40m contract. Construction has just started and although the client is optimistic that benefits from early supply chain engagement will be realised, it is premature to quantify these in any detail.

A PFI contract has been entered into for street lighting replacement and maintenance. This is due to start in July 2006 for a 25 year term and is intended to bring early funds and greater resources to deal with the poor condition and deteriorating street lighting stock.

The council's financial management service has provided excellent support and has been a major factor in securing efficiency gains over a long period of time. Leeds believes that their approach and early achievement of efficiency gains has made the Gershon targets more onerous.

4. Learning Points

The partnership arrangement includes both target cost and time charge methods of reimbursement but greater control is required for the less definable early project brief development and preliminary design phases.

Several supplier interfaces and access facilities are necessary for a range of client systems. These issues have proved problematic and experience has shown that some of the difficulties could have been avoided, or better dealt with, by designing the interfaces and processes at a much earlier stage of partnership.

Leeds is one of five West Yorkshire authorities which have established an integrated transport forum for joint local transport planning and quality bus partnerships. However, this is restricted to policy and planning co-ordination and does not extend to procurement collaboration which ideally requires better co-ordinated policies and plans.

While schedule of rates contracts are efficient in terms of contract preparation and client management costs, client control is weak for directing start times and priorities. Also, the delivery of peaks in workload are constrained by the contractors capacity which leads to work being allocated to whoever has the resource capacity.

Any future design and build contracts need to include greater incentives for achieving the best overall solution balancing time, cost and quality to predetermined standards.

A single contractor engaged to deliver several major schemes has been considered and this may have advantages but concerns remain over capacity and flexibility which would need to be addressed.

The councils' strong emphasis on financial control and economic discipline may have been achieved but improving customer focus is now a major challenge.

The centralised procurement service was awarded beacon status but further improvements could be achieved by better utilisation and co-ordination between general procurement skills and construction specific expertise and experience.

The council has undertaken a measured series of trials and learning processes which will inform future procurement strategies. However, with so many different contracts and forms of procurement, efficiency must be questionable. New arrangements would almost certainly be longer term and would include more robust performance management mechanisms.

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Norfolk County Council

1. Summary of Arrangements

Model/Client Role	Top up with separate works and consultancy contracts operating as an integrated partnership.
Scope	Highways and structures, public rights of way, street lighting, public and community transport, park and ride, transport planning, planning for minerals, waste, and strategic development, environment, conservation and sustainability, Waste management and disposal.
Form of Contract	Bespoke, based on NEC
Start Date	July 2004
Duration	10 years (with provisional break points)
Approximate Value	£40m/annum
Incentivisation	Contract extensions Pain/gain mechanism Process improvement gain share

2. Background

Approximately seven years ago, the County Council entered into five year contracts for design and professional services and for contracting services with Mott MacDonald and May Gurney respectively. Those arrangements were considered to be very successful and were key factors contributing to the County Councils achievement of Beacon Status for Rethinking Construction.

Some four years ago the County Council reviewed this arrangement with the desire to market test the existing delivery mechanism in terms of cost, flexibility and capacity for delivery in terms of scale and specialist support. The Council's objectives were to achieve customer satisfaction by delivering high quality services while ensuring value for money and efficiency.

3. Discussion

Norfolk describes this new arrangement as a move from a Best Value arrangement to a Strategic Partnership. The 10 year contracts (with the provisional break points at 5 and 8 year points) are expected to deliver the following outcomes:

- A more responsive service
- Greater focus on corporate and service priorities
- Increased levels of customer satisfaction
- Efficiency gains including those generated by innovation
- Full partnership potential achieved through integration
- Individual development encouraged

Invitations to tender were invited for either separate or combined works or consultancy services. Both required a comprehensive quality submission, including an examination of the approach to partnership working, innovation and cultural alignment.

Bid presentations and reality checks with existing clients using independent assessors, backed up the quality assessments. In parallel, price submissions were also evaluated. The quality submissions did not explicitly become contractual, highlighting the emphasis placed upon mutual, collaborative, continuous improvement. In July 2004, the resident partners were awarded separate, parallel, ten year contracts.

The combined contracts are valued at approximately £40m / annum. Although the arrangement is a top-up arrangement with no transfers of staff, a fundamental difference between this and some other top-up contracts is the close integration of the whole service. There is a strong partnership ethos and a focus on an integrated service provision. These principles also aim to facilitate open debate and problem solving through strong, relationships.

The works quality bid proposed a virtual joint venture – with the option of a formal joint venture, in the future. Positive experience with ‘early contractor involvement’ (a feature of the original works contract) has encouraged further adoption of that approach with engagement of client, consultant and contractor at a very early stage of projects.

A joint Executive Management Team, with both operational and strategic responsibilities, is seen as a key element of the integrated, coordinated partnership. This team also determines programmes and has a large degree of budget control.

At the next tier, the much larger managers group of approximately 70 people are also attuned to the partnership ethos and the integration of responsibilities achieved at executive level is now being implemented across this group.

The partnership has been operating for almost 2 years and the current focus is on implementing a new integrated staffing structure and extending the opportunities for co-location. The design and consultation of the new structure took a year to complete. It is based on a virtual single organisation to form teams and groups of staff from the three partners placing the right people in the right post. This approach aimed to reduce the administrative overhead, streamline procedures, develop cultural alignment and deliver a balance between strategic capacity and area-office based local delivery. A Local Area Agreement for Norfolk was finalised in February and came into force in April. The essence of that agreement will be accommodated within the highways partnership.

4. Learning Points

Benefits from this new contract approach, so far, include:

- A considerable improvement in programme delivery against targets (as reported in the LTP annual progress reports) and typically over 99% of total budget spent.

- Fast track delivery of a major highway scheme including a new access to a large hospital, improvements to a trunk road roundabout on a key access to Norwich and a Park and Ride site.
- A successful partnership bid for Norwich bus station, now constructed as part of a major scheme, which included a transport corridor through the centre of Norwich.

Staff development and stronger career path opportunities have been aided by significant integration of the blue collar services and staff secondments between partners for design and other professional services. This has proved positive for both staff and service delivery through greater awareness of whole processes and relevant issues and stronger partner links.

Target costs are set for all highway surfacing works, for individual projects valued at greater than £100k, and for bridge works below that threshold but the client is looking to extend this principle. Value engineering is widely applied and out-turn variations to the target costs are distributed through a shared pain / gain mechanism which may also be extended.

Innovation and other initiatives are encouraged and ideas are formalised within business cases, with models and formulae for calculating the sharing of savings. Non cash releasing innovations are also actively encouraged and incentivised through the partnership development ethos.

An acknowledged difference of opinion exists between the contractors desire to implement change at a greater pace than the client believes is achievable. Innovation and associated efficiency improvements and savings in the order of £1m / annum have however progressed smoothly.

The staff terms and conditions across the three organisations have not been altered and there have been very few staff transfers of employment from one organisation to another.

The wider supply chain is a significant part of the overall delivery team and a very important aspect of the service delivery, managed directly through May Gurney. However, although being considered, the cascade of pain-gain principles into the wider supply chain is not yet in place.

A notable lesson from this process has been the importance to recognise cultural differences and the need for closer cultural alignment at all levels, and across the different organisations. Other small but significant benefits of the success of this integrated approach include a joint graduate recruitment advertisements and training programme.

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Northamptonshire County Council

1. Summary of arrangements

Model/Client Role	Single Manage and Construct package contract with retained transport policy, planning and traffic manager role.
Scope	Network management, construction and professional services for most capital projects plus routine and winter maintenance.
Form of Contract	Bespoke based on NEC
Start Date	October 2001
Duration	Maximum of 8 years (5 plus annual extensions)
Approximate Value	Initially £24m but significant subsequent increases
Incentivisation	Contract extensions Shared pain gain mechanism

2. Background

In 1999/2000, the County Council planned to become a 'management led' organisation, from the historically typical 'engineering driven' structure. The Council also reinforced transport and traffic skills and sought to increase capacity to address the growing transport workload and agenda.

To deliver the first Local Transport Plan, and the many other transport and highway services, Northamptonshire sought a form of procurement that was outcome focussed and with appropriate risk allocation. Another aim was to achieve greater capacity and flexibility with a partnership approach to service delivery.

The estimated initial value of the new arrangement was £24m / year covering a large range of responsibilities previously delivered by in house design and maintenance management teams, a term maintenance contract plus, at any one time, up to 50 other separate short term contracts; this fragmented approach to service delivery had resulted in high management and administration costs

The tenders were evaluated through quality and price submissions on a 50:50 basis and in 2001 the current contract was awarded to Atkins for a five year term with a potential extension of up to a further three years.

That award brought together both consultant and contractor roles to form the first significant local authority Manage and Construct highway contract. Some 100 County Council staff and a similar number of term contractor's staff were transferred to Atkins under TUPE arrangements.

Located between London and Birmingham with links to major ports, the local and trunk road network has experienced double the national average growth in road freight traffic. Five years into the contract, Northamptonshire is now facing significant development pressure with economic growth concentrated mainly in three large development areas.

3. Discussion

Capacity to deliver changing programmes and an expanding workload had been a key driver for this type of contract and the new arrangement has been effective in delivering not only those programmes but also in using the additional capacity to take advantage of short notice opportunities. The improved capacity was also able to deliver a significant increase in the County Council's transport budget. Structural road network improvements, costing £25m of additional money, were delivered in 24 months rather than the 30 months originally planned.

The January 2005 ODPM report "Delivering Efficiency in Local Services: Further Guidance for Local Authorities" included the Northamptonshire contract as a case study, noting "This groundbreaking partnership with Atkins, for the maintenance of highways in the County has delivered additional capacity flexibility and efficiency gains"

Some responsibilities, often retained by the client, are vested in the provider under the contractual arrangement, including highway inspection and operational winter maintenance decisions for gritting etc. This delegation has allowed operational responsibilities, duty of care and commercial responsibilities to be combined. It has also helped to align contractor drivers with client ambitions and requires the contractor to indemnify the County Council against certain risks.

Management and development of the contract is directed by a Partnership Board, which focuses on major issues and long-term direction; the joint management team deals with operational issues through monthly management meetings.

The partnering culture is performance driven and developmental with "no surprises" a key aspect. Staff are empowered to make their own decisions, resolving problems at source rather than elevating them to more senior staff.

Lump sum payments cover many of the cyclic maintenance operations. However, snow clearance remains a County Council risk and payment for that operation is dictated by operational requirements.

The residual client organisation comprises small engineering and project management teams which draw, as required, from a wider resource pool to make up a service management group. This group is responsible for budgets, commissioning work, payments, probity and for overseeing management change processes.

4. Learning Points

The County Council believes that its own reputation for delivery has improved with these arrangements and Atkins believes that benefits have been achieved across the wider supply chain.

The main incentives are the shared financial pain/gain mechanisms but Atkins also believes that delivery reputation is a strong incentive.

During the contract, the agency arrangements with Northampton Borough Council were terminated. Although efficiency improved, accommodating those urban works into a largely rural contract proved to be more difficult than envisaged.

From the start of the contract, cost targets were established for all projects valued between £50k and £500k. This was subsequently modified to resolve payment anomalies between projects either just below or just above the lower threshold. It is agreed that this could have been done sooner.

The comparison of actual costs against target costs has shown improvement during the life of the partnership with average variance reducing from the initial 4.5% to a current 1.5%, with actual costs being consistently below target costs

The one-stop-shop customer interface, which includes the “Street Doctor” telephone and online defect notification and progress system, has delivered significant benefits but at times the public still want to talk to “someone from the council” causing some duplicated effort.

Consideration is being given to the possibility of future collaborative arrangements with the Highways Agency and / or neighbouring local authorities, which may be capable of delivering short-term economies of scale. However, concerns remain that efficiencies may be lost through a longer-term reduction in competition.

A three year pilot Local Area Agreement is about to come into operation to test possible alternative models for the delivery of services which involve other authorities and agencies in Northamptonshire.

Northamptonshire is also commencing a re-tendering exercise to align the Council with an arrangement that will comfortably deal with the future predicted workload. To be able to effectively manage the risks involved in achieving this, they may consider a future strategy for service delivery with either a single partner or more.

Contract durations will be determined after considering realistic timeframes to deliver the outcomes – which may be 7-10 years.

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Oxfordshire County Council

1. Summary of arrangements

Model/Client Role	Externalised works contract. Separate Design and Transport Studies contracts.
Scope	Works: All routine, structural maintenance and new works construction up to £350k Design: Engineering design solutions for both maintenance and improvement schemes.
Form of Contract	Works: Bespoke based on ICE 5th Design: Bespoke
Start Date	Works: 2000, Design: 1998
Duration	Works: 5+5 years subject to performance Design: 5+ annual extensions to 2009 subject to performance
Approximate Value	Works: £22m, Design: £3m
Incentivisation	Contract extensions

2. Background

In the 1990's, Oxfordshire externalised two areas of service delivery: Highway Design services to W S Atkins in 1993; and Highway Works functions in 2000 to Isis Accord Ltd. Both involved TUPE transfers of staff. These contracts, entered into because of the combined effect of a falling workload and the CCT regime, were based on traditional ICE and ACE type contracts.

In 1998 the design services were re-tendered and awarded to Jacobs Babtie. Provisions in the Jacobs Babtie and Accord contracts allowed for extensions to the minimum contract periods. A separate arrangement, recently re-tendered and re-awarded to Halcrow, provides transport studies and transport planning support.

The current arrangements with Jacobs Babtie and Accord are developments of the 1998 and 2000 contracts with the addition of performance management measures that were introduced within the original contract. Useful efficiency savings have resulted from the close working between the partners to the contract.

The County Council considered the balance of costs and benefits for either re-tendering the services under a new procurement plan or managing and directing improvements through further development of the existing arrangements.

It was decided to proceed with the latter option and it is intended that continuous improvement will be achieved through the planned extended arrangements as described below.

3. Discussion

At a time when there is a change of focus in the Council's capital programme and less funding for integrated transport schemes, the priority is to secure more reliable programme delivery and transport objectives as well as further and continuous efficiency savings. The Council wants to achieve this by better integration between the Client and the two main suppliers into a virtual single organisation, under the banner of Oxfordshire Highways. It is also hoped that this integrated approach will help to create a seamless public interface with a single point of contact for transport matters.

The Council also want its integrated team approach to include strong involvement by the Executive Member for Transport and senior officers who are looking particularly for reliable delivery and efficiency savings. Target outcomes will be set which include consuming fewer resources, made possible both by closer integration and by business re-engineering the current disparate processes. One example of this is the intention to extend the use of walk, talk and build methodology avoiding detailed designs for the more routine maintenance and small improvements to the network. Another example is building on the existing shared programming information to improve work planning and predictability.

Across the Accord group, the company policy is to transfer technology developments and management solutions from one contract to another and this approach has already introduced several new 'best practice' ideas. A similar arrangement operates nationally within Jacobs Babcie.

4. Learning Points

The suppliers welcome the high-level client commitment and both have expressed a willingness to improve their combined processes. Direction, commitment and support by the key personnel in the client, consultant and contractor is strong, and fundamental to success.

Some improvements have been achieved since the award of the original contracts, notably stronger project management processes and the introduction of gateway reviews. Building on these, the current business re-engineering processes are expected to identify and prioritise further developments. Work is progressing on measures of both individual and collective performance and targets as well as a master programme, at the core of Oxfordshire Highways, to help manage and monitor both programme delivery and performance.

A new Programme Board, with input from all parties, will oversee resource allocation, programme setting and prioritisation. It is recognised that the whole of the supply chain plays a significant part in service delivery. However, the first stage of these new arrangements will not achieve full integration.

Full integration and incentivisation of the supply chain, is planned in the second stage. This will be enabled by means of an overarching partnering agreement. Two examples of those elements of the service currently excluded from Oxfordshire Highways include the surface dressing programme and the Asset Management process.

Oxfordshire County Council acknowledges that, within its own organisation, a significant cultural shift and change of focus is required, including overcoming such practical issues as better ICT integration. Furthermore, the move to one virtual organisation will require improved cost and time accountability.

Although the advantages of co-location have been recognised, this cannot be fully achieved. However, improvements may be achieved for specific work streams or processes as they are reviewed and developed.

Early contractor involvement has been employed on many capital projects and this has added value to the service through improved reliability of costs and time for completion. Further improvements are planned to better manage risks and to further improve value for money.

It is possible to make positive changes to service delivery part way through a contract providing that all parties commit to the changes necessary to achieve the benefits.

Process re-engineering is a fundamental aspect of achieving the substantial benefits that are possible by establishing integrated teams and driving out waste.

The Council's new contract strategy will be reviewed and tested and, if necessary, fine-tuned as the basis for future contracts.

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