

How DSOs partnered for best value on Dorset roads

Client – Dorset County Council, Highways Maintenance Section

Constructor – Dorset Works in partnership with Christchurch Direct Services and Weymouth and Portland Borough Council Highways Services

Designer – Dorset Engineering Consultancy

Case history

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 Theme(s): Partnering

Dorset County Council is upbeat about its first highways maintenance term contract since the demise of compulsory competitive tendering (CCT), with a consortium of direct service organisations (DSOs). The deal, valued at about £60m over five years, covers the whole of Dorset except the unitary authorities of Bournemouth and Poole. DSO bosses say the consortium has raised quality standards that declined under CCT, and reduced costs by streamlining administration and cutting duplicated roles.

Head of Dorset Works, Andrew Martin, explains their rationale: "Under CCT, price was everything. Although prices did fall, it was noticeably at the expense of quality. We've moved away from this." CCT also led to quite aggressive competition between DSOs on neighbouring patches. Martyn Gallivan, Manager of Weymouth and Portland Borough's Engineering and Harbour Services says: "CCT bred a culture of conflict." Consortium members generally maintain roads in their own areas. "That's because employing local labour is usually a significant factor in the economics," says Steve Burgess, Head of Direct Services at Christchurch Borough Council.

Dorset resisted the temptation to sell off its DSO under the CCT regime. Managers believe keeping highway maintenance work in-house is the best solution provided it can be shown to be 'best value'. There is a noticeable sense of public service and aspiring to high standards.

BENEFITS FOR THE CLIENT, THE CONSORTIUM AND SUPPLIERS

Customer satisfaction and defects – Before the contract with the consortium, the client had no rigorous measurement of quality. "It was mainly anecdotal," admits Malcolm Webb, manager of the Highway Maintenance Section that represents the client. "People only remembered the jobs that went wrong. We now know from the auditing done by our contracts monitoring officer and the independent assessment by the DSO that we're entirely happy with about 95% of jobs. The guys out there on the shovel get feedback on how they're doing. It means we can justify less supervision - a tangible saving to the authority."

Cost – The consortium has kept total costs to the client down by collaboration between the DSOs, reducing duplication of roles and

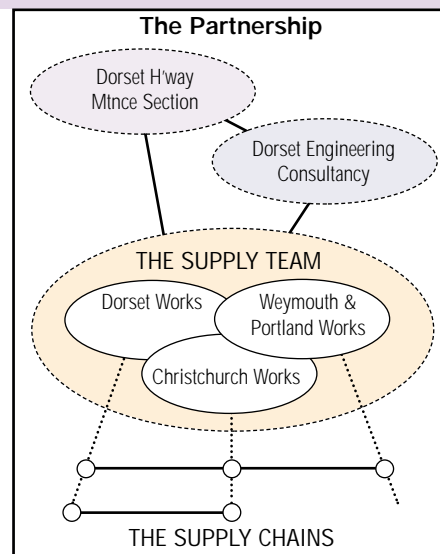
streamlining accounting (see page 2). "We all benefit from long-term joint contracts with suppliers that give stability and economies in exchange for bigger volumes," says Burgess. A recent competitive tender for maintenance jobs up to £500k - outside the £100k limit under the term contract at the time - showed that consortium rates were competitive in the current buoyant market for private sector contractors.

Profit share – Under the rules governing Dorset and Christchurch DSOs, 75% of operating profit is distributed among employees. This is an incentive for everyone to work efficiently so that the business remains profitable while meeting quality and cost targets.

Security – The long-term contract has saved the client, the DSOs and their suppliers the cost of tendering for and assessment of annual contracts. The consortium's 200 employees are enjoying five years of stable employment, with less fear of losing or changing their jobs.

Developing the supply chain – The main effect of the term maintenance contract has been to consolidate and extend what used to be annual contracts with suppliers. But there is also evidence that it fosters innovation. For example, a contractor has adapted his mowing machines for clearing drains in the winter.

Major suppliers like blacktop companies are expected to sign up to key performance indicators. Sometimes they are invited to partnership board meetings and the feedback is now more regular and balanced. "It used to be that they only heard if something went wrong, but now we can pat them on the back when their KPIs are looking good," says Martin.



Dorset highways maintenance – supply team and supply chains

LESSONS LEARNED:

- Leaders need to invest a lot of time and effort
- Partnering offers many opportunities for professional development
- Partnering is less adversarial and hence less stressful
- Pleasant surprises can emerge when you measure performance levels
- Newsletters to employees are not enough; one-to-one meetings are better for explaining changes and gaining support.

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The Rethinking Construction Strategy Model – applied to this innovation



THE CHALLENGE

Compulsory competitive tendering was officially abandoned from 1st January 2000. Annual, lowest-price contracts were out; long-term contracts (typically up to five years), which followed central government's 'best value' procurement strategy, were in. Part of Dorset's value-for-money plan was to reduce costs on the client side by eliminating unnecessary duplication of roles and streamlining administration.

THE SOLUTION

Prior to 1999, there were three annual contracts for rural roads in Dorset and the agency areas of Weymouth and Christchurch. Some 30 companies expressed interest in the combined, long-term contract and five were shortlisted. The DSO consortium topped the quality assessment and also bid 1.5% below their nearest competitor.

The driving forces behind the initiative were Dorset's Network Manager Peter Croad and Works Manager Andrew Martin. Their ideas were put to the Partnership Steering Group made up of senior managers representing the client, consultant and contractor. The agreed model had multi layers of partnering:

- *The client* – Dorset County Council with its two Agencies – Weymouth and Portland, and Christchurch Borough Councils
- *The supply team* – Dorset Works, Christchurch Services and Weymouth and Portland Borough's Highways Section (originally contracted as Weyport Services)
- *The project partnership* – the client, the supply team and the engineer (Dorset Engineering Consultancy).

Collaboration overcame the adversarial behaviour that existed when supply team members competed under the old CCT regime. Flexibility and sharing of resources underpin their new relationship, thereby reducing duplication and waste.

Self-regulation enabled Dorset County Council to refocus some jobs on liaison with the public. They have eight technicians monitoring highway maintenance, who used to spend about 50% of their time checking that work had been done before it was passed for payment. There is now only one full-time contracts monitoring officer who

audits about 10% of work, thus freeing the other seven to improve the quality of service on enforcement issues related to highways.

Out of hours emergency cover had traditionally involved four people on stand-by and overtime payments – two for the client and two for the contractor. These duplicated jobs have been combined, saving nearly £20k a year.

Accounts – Working with software supplier EXOR, the partners have streamlined their electronic works ordering and payment system. It has reduced administrative costs associated with equivalent paper systems and is now marketed to other Councils wanting to simplify their accounting processes.

Measuring performance has been a feature of the partnership. Dorset was a founding member of the Five County Peer Group with Hampshire, Oxfordshire, Wiltshire and Gloucestershire. This evolved into the Highway Works Benchmarking Club with 19 members. Dorset Engineering Consultancy is a member of the 25-strong Highways Design Benchmarking Club.

ADDRESSING PROBLEMS

Some people resisted change when innovation needed a progressive attitude. Managers helped individuals to adjust but, with hindsight, there should have been more personal briefings. Martin observes: "CCT had gone and best value was coming in. They needed to know we were trying to safeguard their jobs."

The consortium brought contractor Hansen into the supply team in April 2002, using a competitive tender process. This was done to boost capacity and to verify the unit rates for increasing the agreed limit of maintenance jobs from £100k to £500k. This also eased the consultant's workload for procuring extra schemes.

WHAT HAPPENS NEXT

Officers are preparing a best value report for the client to decide whether to renegotiate with the consortium when the contract expires in March 2004. The report will be independently scrutinised by the Audit Commission. The client's fallback position would be a best value comparison of competitive tenders.

Next steps:

What you could do to apply these ideas:

- **Read the case study for M41 demonstration project No. 20, Hampshire County Council term maintenance: *Measured partnering*, at www.m4i.org.uk**
- **Use the *Respect for People Toolkits*, available from Rethinking Construction. Apply to be a *Respect for People demonstration project*. Tel: 020 7837 5702**
- **Ask Camargue about the Learning by Doing course: *Key Performance Indicators*. Tel: 01242 577277**



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