

CBIBRIEF

Transforming local services

Working together to deliver local government place-shaping

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The successful implementation of local government's new 'place-shaping' role needs local authorities to take a long-term approach to commissioning services which harnesses the expertise of all types of provider. In response, local stakeholders will need to significantly change their approach to partnership working. The best partnerships will in future more explicitly link performance improvement, value for money and user needs.

The Lyons Inquiry,¹ the Local Government White Paper² and the Local Government Association³ (LGA) all see local authorities as 'place-shapers' of their localities – determining the outcomes needed from public services and ensuring they are set up to deliver them. It is a bold vision, one that requires the commissioning of services to be closer to the heart of local government functions.

For local government to make a success of place-shaping it needs to have the capacity and ability to engage in sophisticated dialogue with partners who can help deliver local outcomes. The national forum we are recommending in this brief should provide a cohesive voice to engage with central government, bringing together commissioners, local government agency officials and suppliers. This will help commissioners and suppliers develop a consensus on the key challenges to commissioning public services.

Implementing place-shaping will not be straightforward. It requires both the support of all stakeholders and a cultural shift within local authorities and service providers. Some councils are already embracing this change and working with a wide range of partners to commission services strategically and rethink how they are designed. But many more are still to catch this wave. This brief identifies and analyses successes and seeks to inspire others to use commissioning creatively to respond to the new place-shaping agenda.

Suppliers will also need to rethink their relationships with local government. The place-shaping agenda changes expectations of how services are delivered. Citizens increasingly expect the services they receive to be joined up: this means suppliers will have to work closely with a range of local partners, each with the necessary expertise or niche skills which, together, create a more effective total

service. That requires new ways of contracting with local government. This brief responds to this challenge.

Our recommendations draw on interviews with local authority chief executives, council leaders, heads of procurement and strategic services and independent sector suppliers. Their experiences reinforce the case for fundamental changes in thinking and behaviour across local government and the supplier community to ensure a new approach to commissioning over the long term.

We are making some challenging recommendations. If successfully implemented, they will help to deliver the high-quality public services citizens expect and demand.

This brief has been prepared with advice from a range of local government agencies, including the LGA, the Regional Centres of Excellence (RCEs), the Audit Commission, the 4ps (local government's project delivery specialist) and the Improvement and Development Agency (IDeA).⁴

IN SUMMARY: key to delivering local government's place-shaping agenda is the need for business and local government to engage better at a national, regional and local level.

This brief explains why dialogue needs to improve and sets out how this might be achieved through a national forum. It also suggests an agenda for this forum. Based on analysis of the views of both commissioners and suppliers, it argues that:

- 1 The case for local government taking a commissioning lead must be better made
- 2 Sustainable markets are essential for continuous improvement
- 3 Partnerships can be adapted to deliver complex service outcomes
- 4 Better procurement and contract management skills and practices are crucial
- 5 New skills across all sectors are needed to make change a success.

The case for better engagement across sectors

Last year's Local Government White Paper articulated a wider responsibility for local authorities to shape the identity of their respective communities, ensure they are economically prosperous and manage conflicting local interests to ensure cohesiveness.⁵ Strong and effective local authority leadership is key to achieving these aims. Local councils are best placed to understand the challenges they face now and in the future. Citizens too expect councils, as their local democratically elected bodies, to be responsive to their needs. But while local councils are best placed to lead this agenda, they cannot do it alone. Other local partners including business must rise to the challenge to help meet local priorities.

The CBI believes business has a crucial role to play in implementing this bigger picture at a national, regional and local level through increased engagement with local government. Specifically:

- The business community has a responsibility at national level to engage with local government agencies and central government departments. This is crucial to develop frameworks for improving the economic prosperity of localities⁶
- Businesses can support change locally by helping individual authorities define their economic priorities and develop their place-shaping role. Local Strategic Partnership (LSP) boards are one mechanism for doing so. While recognising that it is not always easy for local businesses to get involved due to resource constraints, they will need to demonstrate a willingness to work much more closely with local councils. Businesses will in turn benefit from local councils being more responsive to their needs
- Business must help shape and implement policy for the commissioning of local public services. The local government white paper marks a more ambitious phase in the conversation at national level about how councils approach delivery of local services. Yet, with efficiency targets tightening over the next three years, action is also required to avoid a flight to contracting for lowest cost, to the detriment of service quality and the sustainability of the provider market. By working together, local government and suppliers can ensure this does not happen

- The private sector should draw on the lessons learned from its growing role as a provider of services for local authorities. It has a wealth of experience in delivering a diverse range of services to its customers and local government can benefit from this commercial expertise to develop its own role. This brief shows that innovative partnerships have developed and do offer new insights on good joint working and commissioning, including the management of complex supply chains.

This brief focuses on improving the latter two areas of engagement. In practice, barriers to joint working still exist at national, regional and local levels – and are as much cultural as bureaucratic. There is often little trust and understanding between sectors. This prevents all partners working out the solutions needed to bring about change; commissioners and suppliers lack the confidence in one another necessary to develop strong, responsive solutions.

Creating the right environment for commissioners and suppliers to develop shared ideas on how to realise the change needed to improve the performance of local services is crucial. The Harvard Business School academics, Clayton Christensen, Matthew Marx and Howard Stevenson, make the simple but persuasive argument that effective collaboration hinges on two key factors: a shared sense of what people want to achieve and some degree of consensus on cause and effect – the things that will allow them to achieve it.⁷

Lyons provides a new sense of leadership for local government, and an opportunity to set out the priorities for sustaining economic development. It also gives local councils the impetus to create and sustain public service markets, which permit services to be convened and commissioned from the best providers. The days of compulsory competitive tendering (CCT) are over.

“Constructive partnership working with all sectors maximises value for money for residents and customers.”

What is good commissioning?

Good commissioning involves setting out a clear vision of what service is required, separate from and beginning before the formal procurement process, which then continues through to managing the contract and delivering the service.

Commissioning is a complex and strategic process which requires the commissioner to develop a clear idea of the needs, aims, ambition and accountabilities of key stakeholders. It requires the commissioner to take ownership of the process, from assessing needs and standards of current provision through to designing the requirements of the new service in partnership with providers.

A new forum for market development

The lack of sustained dialogue at all levels is a cause for concern for CBI members. We believe a national forum is needed to promote stronger discussions between the supplier community and local government commissioners.

This forum should contribute to the work of Communities and Local Government (CLG) and its national improvement strategy. It could act as a sounding board for the development of government initiatives, such as statutory guidance on place-shaping and consequential revisions to the best value regime. Through it, commissioners and suppliers would be able to develop a consensus on how to respond to the biggest barriers to change. The forum would also allow commissioners and suppliers to develop thinking on issues such as market development, contracting for complex outcomes, disseminating best practice, managing risk and performance and delivering value for money and customer focus. In effect, the forum would be a national strategic partnership for commissioning along the lines envisaged by the Best report.⁸

Through it, we think local government commissioners would have greater confidence in the supplier market – and vice versa. Increased market confidence will help ensure services are commissioned on the basis of value for money and allow the market to respond with innovative ideas.

Some activity is already taking place. CLG commissioned research on how to develop local government markets in general and at sector specific level.⁹ A series of national roundtables were held involving local and central government, business and the voluntary sector. At the regional and local level north east stakeholders and Bracknell Forest Borough Council (see below) are current pioneers. The approach of Wakefield Metropolitan District Council (see opposite) to market dialogue demonstrates

how effectively suppliers and commissioners at the local level can arrive at shared solutions which improve trust and understanding. Progress has been made in all these examples because the engagement process has been streamlined.

Dialogue is crucial for partnership working and place-shaping. A failure to build links across the community will threaten the better outcomes that local commissioners, suppliers and service users want to see.

CASE STUDY

The north east: joint development of a regional agreement

A regional procurement agreement is being developed by the north east procurement forum, which is led by CBI North East with representatives from One North East, the Regional Development Agency, the North East Chamber of Commerce and the North East Centre of Excellence.

The forum will promote a region-wide commissioning approach to public sector procurement by 2010, with all decisions being based on added value and cost. Its work will focus on interpreting national policy and improving the effectiveness of the commissioning process in the region, including how best to ensure the full

choice of commissioning and delivery options is available.

This marks an important development in joint working between the public, private and voluntary sectors in the north east and could provide a template for similar work across other English regions.

CASE STUDY

Bracknell Forest Borough Council: promoting a regional approach to strategic commissioning

Bracknell Forest Borough Council spends around £90m a year on goods and services, including its energy portfolio. The council has little history of large-scale outsourcing, but its members and officers are determined to bridge the divide between local government and the supplier community. To this end, it is working with the South East Regional Centre of Excellence to build a regional procurement portal as a means to advertise opportunities. Internally, it will share knowledge and serve as a repository for specifications. The council hopes this will facilitate a reduction in the requirement for companies to complete lengthy – and costly – pre-qualification questionnaires for each council individually.

Regional arrangements and agreements for furthering collaboration are the future for public services in Bracknell. Seven new schools are being built across Berkshire, (including one in Bracknell) under a construction framework led by Hampshire County Council and supported by the South East Regional Centre of Excellence, allowing the council to benefit from a common supply chain and reduced procurement costs. It is also looking at a range of shared services options, including combining energy portfolios across the Thames Valley region to deliver annual savings of £2m. A cross-Berkshire procurement office has also been set up to explore shared services in foster care and adult social care.

The council believes exploring these regional delivery mechanisms offers the best opportunities, with limited resources and expertise, to deliver value for money. They allow the use of procurement as a change agent within the region, delivering not only cashable efficiency savings but also other less tangible benefits, such as regional co-operation and development.

CASE STUDY

Wakefield MDC: working with local business to improve its services to residents

Wakefield Metropolitan District Council had little previous history of outsourcing services to third parties prior to 2003. But attitudes are changing – in part due to a successful streetlighting contract signed with Amey in 2004 which is exceeding expectations.

Council leader Peter Box is pragmatic about service delivery in Wakefield – his priority is for them to be delivered efficiently and in the most appropriate way. The council has a comprehensive supplier engagement strategy that was awarded beacon status for procurement in 2006. Its aim is to make it easier for companies to access information about council contracts and bid for business.

Wakefield was also one of the first authorities to go live with a new regional supplier and contract management system, which allows companies to register to receive email alerts if any authority in the region puts out a tender or requests a quote for supplies or services that matches its profile. The council’s engagement programme includes workshops for companies on how to bid for council business and an annual ‘meet the buyer’ event.

The response from local businesses has been positive. One attendee stated: “Having struggled to identify the key contact for our services for many months, I located the right person

after just ten minutes. If all authorities conducted work in this way, authorities and suppliers would both benefit significantly”.

The council is clear about the importance of healthy local business for wealth creation. This closer relationship has also led the council to start thinking in a more customer-focused way. Cllr Box says: “To deliver responsive services, business and local government must see themselves as part of the same community.”

CBI RECOMMENDATIONS

- A national forum should be established by the Local Government Association (LGA) and the Regional Centres of Excellence (RCE) to bring together a range of public, private and voluntary sector organisations. This would allow commissioners and suppliers to reach a consensus on the practicalities involved in delivering local government’s place-shaping agenda
- Commissioners and suppliers must take actions to improve partnership working. Suppliers must make themselves available to support local government at all levels. This includes a commitment to participating in Local Area Agreement (LAA) boards and providing support to local government in accessing the commercial expertise it needs.

1 The case for local government taking a commissioning lead must be better made

There is a drive from central government to devolve more decision-making to local government. Encouraging councils to develop commissioning expertise and move away from being the sole provider of public services has been part of this process. The benefits of local authority commissioning are two-fold. It allows councils to focus on place-shaping and – providing commissioning is handled well – it provides more control over service delivery. But CBI members believe this practice is not commonplace and too many councils still do not believe developing a commissioning role is a priority.

Business and local government have a common positive interest in wealth creation and ensuring the delivery of first-class public services. The Local Government White Paper places commissioning firmly within the wider place-shaping role: “...local authorities are continuing to move away from a narrowly defined approach to service delivery towards a ‘commissioning’ role – being open to using the best possible ways of securing service outcomes”. As a result, authorities will need to ensure that services are being delivered by those best placed to deliver them. Some forward thinking authorities recognise this, but there is a long way to go before all local authorities adopt this approach.

Commissioning encourages a focus on the bigger picture

The white paper is clear that at the heart of place-shaping is the ability of councils to take a strategic view of their role in a locality, including the services which their citizens need. It is time to move away from traditional delivery methods and instead ensure that the way services are delivered in a locality is appropriate and relevant to the citizens who live, work and do business there.

Taking a strategic view will enable councils to see where they can draw on the expertise of local partners and work in partnership with them to commission services which meet community needs. The Lyons report is also clear that where councils have entered into genuine partnerships with service providers – partnerships which go beyond the traditional contractor/client relationship – they have been able to develop more flexible services and reinvigorate failing services with new expertise and innovation.

Working with partners from all sectors to commission and deliver services will free up capacity within councils to focus on place-shaping. Being able to step back from direct delivery of services will help councils to rethink the way that services are being delivered and how the creation of local markets can best contribute to local economic prosperity.

The move away from a role as sole deliverer of services must be gradual. It is neither necessary nor desirable for councils to cease to deliver all services. Rather, the priority should be on considering whether, in each individual instance, they are best placed to deliver a service which will meet citizens' needs. But while some councils are using commissioning to embrace a more strategic role, many more must do so in order to make place-shaping a reality.

Good commissioning helps councils control their services better

By actively creating and sustaining service markets, councils will be able to ensure access to a wide range of delivery partners with expertise to develop innovative new models of service delivery. By embedding the discipline of good contract management into the way they do business, they will also become more experienced at monitoring service performance to ensure contracts are delivering continuous improvement.

The benefits of service commissioning come primarily from this discipline of contracting. Contracting and partnering with a range of delivery partners will assist councils in developing the best practice needed to ensure they are commissioning the right services for their localities and that the most appropriate provider – whether public, private or voluntary sector – is delivering them. It will be crucial, for instance, for councils to have a clear idea about what outcomes need to be achieved and how performance and contractual relationships will be monitored.

The separation of the delivery and commissioning roles required to develop supplier markets will ensure officers and elected members concentrate on building real local expertise and understanding. There will be different solutions needed and different ways to engage partners across councils, but there are lessons that can be learned from councils already embarking on this agenda.

Welwyn Hatfield Borough Council, for example, has been clear for some time that its role is not simply to deliver services but rather to ensure it is able to commission services from a range of partners. Michel Saminaden, chief executive at the council, confirmed: *“We strongly embrace constructive, open partnership working with public, private and voluntary sector organisations, and believe that this is the best way to maximise value for money for our residents and customers”*. The council's street scene contract with Serco is testament to this (see opposite).

The London Borough of Southwark outsources a number of services, including revenues and benefits, front-office IT and an agency contract worth around £40m a year. Bill Murphy, strategic director of customer and corporate services at the council until March 2007, believes: *“The advantage of a real partnership is mutual motivation: we want providers to be constantly innovating to ensure service improvement. The return is the probability of future business with us”*.

CBI RECOMMENDATION

- Pioneering leaders of local authorities and suppliers should publicly endorse the benefits of commissioning through the LGA, RCEs and the CBI.

CASE STUDY

Welwyn Hatfield Borough Council's partnership with Serco

Welwyn Hatfield officials firmly believe the council's primary role is one of service commissioner. So when its existing street scene contracts were coming to an end, there was little difficulty in convincing council members that a single integrated street scene solution was the answer. The resulting contract with Serco – which went live in April 2006 – will last for ten years, with a possible extension to 14 years. It is worth around £3-3.5m a year and covers a range of street scene activities, including refuse collection, recycling and ground maintenance.

The council was clear from the beginning that it was commissioning a genuine partnership based on dialogue rather than delegation. Engagement with the market as a result was comprehensive

and timely. It spoke to 15 different service providers to 'soft test' the services and explore partnership potential.

The council demonstrated its own commitment to the relationship by being up front about what it could afford and guaranteed that spend on the contract would never fall below 80% of that of the first year. In its second year, the contract moves to open book accounting – this increases transparency and allows Serco and the council to share risk and commercial advantage.

A partnership board meets quarterly and provides high-level strategic direction for the contract. Serco also attends overview committees to talk about progress with the work and monthly

meetings take place at an operational level. Residents, too, have a real say: part of Serco's payment is based on customer satisfaction. In each area, a community champion has been selected to liaise directly with Serco to report any areas for improvement.

The company has become an integral part of the council. It is sponsoring the council's 'civic awards', demonstrating its commitment to Welwyn and Hatfield. As a result the public increasingly sees Serco as part of the council. The bond between client and provider is strengthened by a secondee programme which has been set up to help share experience and information between the two organisations.

2 Sustainable markets are essential for continuous improvement

Sophisticated and diverse local markets are required for local government to commission services effectively and to ensure those services represent value for money for local citizens.

It is in local government's own interest to make best use of its commissioning and purchasing power. Enabling the public, private and voluntary sectors, to compete on a level-playing field will ensure that services are provided by the supplier best placed to deliver them, and that new providers can enter and compete in the market. Markets in which competition thrives also allow innovative services to flourish. To create competitive markets local government must engage more with the supply-side, explain its requirements and gain a better understanding of the supply-side's potential.

A level playing field between all providers is essential in ensuring all public service markets operate in the best interests of the consumer and taxpayer. The CBI has been advocating this principle of competitive neutrality.

Better information for bidders and clients is also key to improving market functioning. Market design is a bilateral process: business and local government share responsibility for ensuring diversity in all local government services markets. The diversity of demand in the local government market is significant, so the supply side must be able to offer an equally diverse range of services and experience. Such complexity will not arise spontaneously: local authorities must actively manage markets by developing effective ways for local providers from all sectors to enter the market, compete for contracts and invest to innovate.¹⁰

Many councils are beginning to provide more detailed information about their future deal flows and guidance for all bidders on how to compete for council contracts.¹¹ Source Derbyshire, a web-based procurement system set

up by Derbyshire County Council (see below), and the procurement portal being developed by Bracknell Forest Borough Council are good models to consider. Portsmouth City Council is demonstrating how clients can play an active role in stimulating the supply chain through its web-based system, which encourages contractors to advertise all sub-contracting opportunities.¹² The challenge is to ensure such examples are shared more widely between authorities to encourage new approaches.

Councils too need better information, particularly on the true cost of competing delivery options. Devon County Council, for example, now has mechanisms which make the costs of delivering a service more transparent. Its in-house team is clear about how much a service costs and whether or not the council is able to afford the service (see opposite). When bids for services go to market, cost comparisons between in-house and external providers is clear.

Many local authorities are still finding it hard to access transparent information about the cost and performance of council services. CLG's recent markets work recognised the importance of increasing access to this kind of information for councils to make accurate assessments about whether existing services represent value for money. Some progress is being made – in Berkshire, for example, where authorities are trying to identify the true costs of providing social care in-house. Similarly, the society of IT management (Socitm) has conducted detailed work into costings in the IT market.¹³ But the overall picture is poor, and this is a long-term threat to effective market management. Without access to this information across the board, authorities will find it difficult to make accurate judgements about cost and what they can afford. This information needs to be available to all authorities and must cover all services. This can be done most effectively through the Audit Commission, from which information could be filtered through to local commissioners via the RCEs.

CASE STUDY

Derbyshire County Council: managing its markets

Derbyshire County Council runs a number of successful public-private partnerships. It believes that when services are developed with market input from the start, they are more likely to deliver good outcomes. When soft market testing for a property partner, for example, the council invited interested providers to a day seminar, with individual follow-up sessions for those who wanted to discuss issues in more detail or of greater sensitivity.

Providers are encouraged to approach the council with ideas and are given the opportunity for informal engagement at an early stage. The council is clear: the resources required for this close market engagement are easily justified by the improved results.

The council is confident early engagement with the market will develop flexible services which meet user needs. To ensure council staff engage effectively, the council is working with Derby University to build a comprehensive training programme for all its procurement staff.

Derbyshire's commitment to market dialogue extends to ensuring prospective providers of all types are fully informed. The tender documentation used by the council was put to the market for feedback and revised as a result. Andrew Ayling, head of procurement, said: "Suppliers need to know whether they are in the market for a particular contract or not – so they need to know what it is and how it will

be evaluated. We have a policy of no surprises."

Informal dialogue has not compromised the neutrality of the council's contracts, though, which are awarded on the basis of open competition. To support this, it pioneered a web-based system, which advertises contract opportunities and allows the council to gather information about the market. Source Derbyshire, launched in 2000, was the first portal of its kind. It has now been rolled out across the East Midlands and is gaining partners further afield.

CASE STUDY

Devon County Council: creating a fairer market through full cost comparison

In partnership with Torquay and Plymouth, Devon County Council has combined in-house and external providers to be part of a framework agreement to provide support services to schools. Schools can contract with any provider on the framework agreement.

Eight areas have been completed so far, including supply teacher cover and web design. In each case, the in-house team has received business training and marketing resources to compete and sell its services. In return, it is expected to charge schools the full cost of its

services, including all overheads. This creates transparency when comparing in-house services with those offered by other providers and gives in-house teams a clearer customer focus.

There is room for improvement in the tools available to authorities for making these kinds of assessments. In particular, the best value regime. One chief executive indicated that administering the best value process had cost the council £1m, and described the experience as “*horrendous*”. The government plans to revise the best value regime,¹⁴ with the aim of increasing the use of competition and commissioning in local government. This revision must provide tools which allow authorities to assess existing service levels in a straightforward and cost-effective way, if they are to achieve the desired outcome.

As part of the development of a new performance framework for local authorities, the Audit Commission should consider making assessments about authorities’ unit

costs in key service areas such as payroll, IT and council tax. This would give authorities an incentive to ensure they were using methods which delivered the most efficient outcomes in terms of unit cost. Ensuring councils have access to this information is crucial, but so too is ensuring that councils have the capacity, expertise and incentives to take difficult decisions about challenging the way services are delivered.

Local authorities are beginning to ask difficult and sometimes unpopular questions about their core business. When the London Borough of Croydon decided to outsource its facilities management (FM) services, it was on the basis that it went to a company which had expertise in FM and could professionally manage council staff who chose to transfer (see below).

CASE STUDY

London Borough of Croydon and Interservefm: delivering integrated facilities management

Croydon Borough Council spends around £22m on facilities management (FM) each year. After a thorough examination of its spending, the council predicted it could save around 10% through a single facilities management solution. But the decision was not based solely on saving money: Croydon recognised it was not expert in delivering FM and that employees would develop more under new arrangements.

The resulting contract with Interservefm, which came into operation in July 2006, is complex, as it had to bundle 34 existing contracts into one and rationalise delivery across over 600 sites. Despite this, the council was determined to run a best practice procurement from the start and appointed a project team and sponsor, including a project manager from the 4ps. External challenge was provided by using the OGC gateway review process,

which the council believes played an important role in successful delivery because it enabled the council to identify areas in which it needed additional support and expertise to help run the procurement smoothly.

The subsequent contract is flexible and outcomes-focused and can be extended to other services or for neighbouring authorities. Because both parties know

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CASE STUDY

London Borough of Croydon and Interservefm: delivering integrated facilities management *continued*

what outcomes the service needs to achieve, the council is able to leave Interservefm to get on with determining the approach to smaller issues, like minor maintenance works. This not only saves on management overheads, but ensures both parties share responsibility for delivering continuous improvement.

The procurement process and contract operation are both characterised by communication and trust. During procurement, the council ensured all staff were comfortable with the implications of the arrangement, occasionally pausing the process to clarify any issues, determined that from day one there would be no surprises. In operation, weekly meetings take place at

an operational level with Interservefm, whose inputs into monthly performance reports cover a range of key performance indicators (KPIs).

The strong relationship between Interservefm and Croydon delivers clear benefits for residents: predicted annual savings of around £1.5m are already being exceeded.

CBI RECOMMENDATIONS

- Managing and sustaining markets requires better supplier – local government dialogue and a clear competitive neutrality policy framework. The LGA, RCEs and suppliers should work together to achieve both
- Local authority commissioners must challenge existing service delivery. CLG must ensure that revisions to the best value regime provide non-bureaucratic ways for authorities to increase the use of competition and commissioning. Best value must be an enabling tool for councils rather than rigidly imposed and burdensome
- The Audit Commission should gather more detailed information about performance and costs. This will enable authorities to make commissioning decisions based on standard and easily accessible information.

3 Partnerships can be adapted to deliver complex service outcomes

Early and high-quality market dialogue is crucial for overcoming the challenges clients and suppliers will meet as a result of local government's focus on place-shaping. When councils are thinking about establishing and managing markets they will need to consider how to contract for joined-up services to meet local area agreement (LAA) targets. Important issues such as affordability limits, user engagement and how to contract for complex outcomes can, in part, be addressed through a dialogue with the market.

A three-way relationship between client, supplier and service user must be developed and should be based on trust: failure to engage closely with any party in the procurement and development of the service risks serious problems later on. In particular, engaging service users is key. In July 2006, the CBI published a brief demonstrating how private service providers are effectively involving service users in shaping the local services they receive. Effective engagement of service users is still the best way to ensure services meet their needs.¹⁵

Commissioning for the delivery of **complex outcomes** requires a focus on the 'whole life' of the service, from needs analysis through to delivery. For example, in street cleaning you would start by identifying a 'grot-spot' which was not being cleaned to an adequate standard. Early engagement with the supplier community would examine better ways for keeping the area clean, including how regular the service would need to be provided.

CASE STUDY

Contracting for outcomes: Rhondda Cynon Taff and Foster Care Associates

New solutions and new models of service delivery are key to achieving better outcomes. This requires commissioners to engage with providers so that they can make an informed choice based on what is best for children and young people. In Rhondda Cynon Taff,

the local authority has worked with Foster Care Associates (FCA), to replace the council's children's home provision with intensively supported foster care. This has led to a more appropriate environment for young people formerly in residential care homes, while also

saving the local authority £1.2m over a three-year period. FCA provides support appropriate for the multiple needs of children and young people – such as education, social exclusion and health issues – allowing them to access local services.

From the outset, commissioners need to be talking to the market about how the service will be delivered, including consultation with users about convenient times and days for the service to be delivered. This kind of approach is helpful in ensuring early plans are made for how the service could develop over time. But public and private sector representatives believe this approach is *ad hoc* and too reliant on goodwill or chance.

Well-managed mechanisms to increase **user engagement** can enhance service quality without threatening efficiency. The CBI supports performance measurements which reflect the necessity of user and community engagement in designing services and evaluating user satisfaction.¹⁶

Close engagement with service users can drive continuous change, but is too often seen as merely a tick-box exercise to show that services are not actually failing. One option is for local authorities to engage citizens earlier in the commissioning process (and subsequently in performance assessment), using their ideas to shape the design of a service. The Future Services Network, which brings together partners from the private and voluntary sectors, has identified principles which will ensure consumers are at the heart of the commissioning, delivery and measurement processes and demonstrates the commitment of business and the voluntary sector to user-centred services.¹⁷

Increasing the sharing of services would enable local government to meet the challenge of **joined-up service delivery** and achieve significant economies of scale without compromising on service quality. But to date, the focus has been almost exclusively on aggregation across and within authority boundaries. Commissioners should consider

all the options for aggregating services, including pulling together services within one authority into a single contract.

Suppliers need confidence in the way services are being commissioned – but the development of specifications among more than one authority can often lead to confusion and a lack of clarity over what is being bought. As one supplier noted: “*Behind most procurements for a joint solution there seem to be several different contracts*”. Commissioners are clear that this is often due to a lack of collective understanding of what is to be achieved. Authorities often have different views about what they are procuring. For suppliers to commit to the market for the long term, they must have confidence that commissioners are able to identify and articulate what they want – and can afford.

Commissioners and suppliers are beginning to build confidence in joint working. Some authorities are developing flexible contracts which offer scope for other local authorities to come on board. This allows suppliers to be clear about who is doing the initial procurement, but it leaves open the possibility of extending the contract later on.

Contracting for **affordability** goes beyond achieving value for money and should include clients sharing the management of their budget with the contractor and achieving efficiency gains and service improvements simultaneously.

Both commissioners and suppliers feel it is time for an honest and open debate in local government around the shared understanding of affordability. As one public

CASE STUDY

Portsmouth City Council: placing service quality before price

Portsmouth City Council has taken a radical approach to procuring larger projects through involving suppliers at pre-tender stage in shaping what the contract will look like. Developing contracts in this way ensures buy-in from suppliers and gives both parties confidence about how the contract will be managed.

Some contracts have been let with discussion on how the contractor will work within limits of affordability

rather than the price itself. Instead, the authority has been clear about what it can afford and what the desired service outcomes are. Based on this information, it is up to tendering suppliers to develop a service solution which delivers what the council needs. For this to work, trust must underpin relations from the outset. Suppliers need to be confident that the authority will consider their offer on criteria not based on price alone. Similarly, commissioners in the council need to be confident that suppliers

are offering them the best quality and standard of service which its affordability limits allow.

The council is developing a model for periodic benchmarking of services to ensure continued value for money. It believes this is more likely to deliver continued value for money than simply taking services back to the market, because contractors will be incentivised to adjust prices in the context of a long-term relationship.

sector interviewee explained: “*The price of anything is perfectly straightforward...what is more difficult is getting all authorities to specify what they can afford from the outset and understand that bidders will not be able to cut costs for them*”. The example of Portsmouth City Council (see above) demonstrates an approach which ensures affordability limits are up front and that bidders are able to design a solution within those limits which meets the council’s needs.

By developing more transparent relationships, commissioners and suppliers work together to overcome concerns. It is clear that commissioners and suppliers need to ensure services strike the right balance between standardisation – for cost efficiency – and adaptability. Authorities tell us they sometimes feel suppliers only offer a one-size-fits-all approach which does not take into account the particular needs of a locality. Suppliers, in turn, have concerns that councils do not always clearly articulate what these needs are and what they can afford. Increasing the quality of dialogue between commissioners and suppliers should help to iron out these problems.

CBI RECOMMENDATIONS

- Suppliers should respond positively to challenge and contribute to the continuous improvement agenda by harnessing the possibilities for innovative service delivery methods

- Commissioners and suppliers must work together to develop new delivery models. Each should be designed to meet rising user expectations and allow authorities to meet tighter efficiency targets under the comprehensive spending review.

4 Better procurement and contract management skills and practices are crucial

Having the right models in place to deliver service priorities is important but these must be backed by an improvement in techniques for handling the practicalities of delivery – the best procurement and contract management processes make the link between good commissioning and satisfied consumers. Above all, commissioners and suppliers need to rethink the ways in which their relationships are governed. Before, partnership resulted in a delineated relationship between the contractor and the client. Now, new approaches are emerging where the client is welcoming the service partner as an integral part of the delivery team.

Risk management instead of risk allocation is the only sensible way of developing a partnership around outcomes and the accountability for achieving those outcomes is necessarily shared by the contractor and the client. Relationships are clearly important to the success of a contract and many councils are working well with contractors to

CASE STUDY

Staffordshire County Council: highways partnership with Accord

Staffordshire County Council's highways partnership with Accord is built on a 'one team' approach, rather than a rigid definition of client and contractor roles. Accord plays a significant role in service design and the contract is designed flexibly to create opportunities and incentives for innovation. The partners focus on outcomes and align individual roles to the processes which will most efficiently deliver these, without regard to who employs the staff except where there are probity issues.

This new approach to service delivery is working. Staffordshire was ranked in the top ten of highways authorities for achieving efficiency gains in 2005/06.

Sustainability is built into the contract. For instance, the partnership is achieving targets to recycle around 50,000 tonnes of excavation material a year and to make around 90% of purchases within Staffordshire. Staffordshire frequently ranks at the top of national league tables in reducing serious road casualties. The

revenue for maintenance last year was within £40k or 0.1% of the £26m budget.

Overall the government judged Staffordshire's delivery of its first local transport plan as excellent and for that reason increased the financial allocation for integrated transport by 12.5%.

develop contract management arrangements which deliver the best results. Accord and Staffordshire County Council have developed an arrangement which merges the roles of commissioner and supplier to create an integrated contract management team. This ensures the right people are allocated to the right tasks (see above). It is important for commissioners and suppliers to work together to develop these relationships and arrangements, but so too is ensuring these arrangements and service performance are clearly audited.

But at the same time there are historical concerns about the practicalities of procuring and contract managing that still need to be addressed. Work has been started to improve the procurement process in local government. The National Procurement Strategy has raised the profile of procurement in local government and identified some of the areas for improvement. But the pace of change has been slow.

To help improve this situation, the CBI has published a set of recommendations for improving procurement and contract management practices across the public sector.¹⁸ Some of the recommendations made in this report have particular application in improving local commissioning:

Senior sponsorship of projects prevents drift and delay:

Ensuring authorities are able to procure the solutions which best meet their needs requires the involvement of officers and members at the highest level. Our research indicated

that senior buy-in to provide accountability for a project is vital in councils of all sizes. All projects should have a senior project sponsor, someone ultimately accountable for the delivery of that project. In local government, commissioners and suppliers believe all projects should have both a political and an officer sponsor. Political buy-in can help drive the project and is likely to keep the focus on outcomes.

Officer leadership is just as important – Wakefield Council, for example, strikes a balance, with the leader having overall oversight but delegating to officer specialists. Project boards are used in many councils to provide the same support mechanisms.

Gateway reviews for all projects over a certain threshold focus minds on performance:

The best way to ensure success is to focus on support at the front end of the commissioning process, primarily through the early and regular use of gateway reviews. Interviewees were clear that gateway reviews provide a powerful challenge to projects. Bracknell Forest Council, for example, is developing an internal gateway process to ensure increased challenge to its procurements. For larger or more complex projects an external challenge can be provided by the 4ps. It can identify areas where future support will be needed to allow a local authority to plan and budget accordingly and to ensure external resources can be made available.

Procurement processes also need to be well-managed and effective. Suppliers are not willing to invest time and resources in processes which are not timely, consistent and inspire confidence. And suppliers are able to exercise discretion over the contracts they bid for – many have withdrawn from a procurement process because they lacked confidence in it. Commissioners need to recognise that procurement is a two-way process and ensure their processes are rigorous and transparent.

Clear timetables and evaluation criteria encourage provider confidence: Authorities should be encouraged to ensure that the criteria on which bids will be evaluated are well thought out and published early so that bidders are aware of how they will be assessed. As one commissioner stated: *“Clarity over the rules of the game is the only way to ensure both clients and providers have confidence in the process”*.¹⁹ These criteria must be established at a strategic level by the procuring authority, clearly articulated to those carrying through procurements, and set out for prospective providers. They must go beyond asking questions about quality and provide a discipline for making robust and transparent decisions based on an assessment of the supplier’s ability to meet the client’s outputs and outcomes.

The credibility of timetables, procurement processes and evaluation criteria should be reinforced through early publication. Procuring authorities must recognise the implications of deviating from them. They must also be clear about the potential for, and limits to, changes to the project scope. There must be clear consequences for councils from making changes to the criteria on which bids will be assessed, once the process is underway.

Ensuring performance management of a contracted service: Commissioners and suppliers have identified to the CBI a need for agreement about the ways performance is monitored from the outset. This includes performance of both the service itself and the contracting relationship. Our research suggests commissioners and suppliers would both benefit from more rigorous auditing processes. In the housing sector, inputs and outputs are regularly measured – a good model for all sectors to adopt. These audits should be linked to future funding benefits for local authorities. Local government has suffered at the hands of unexpected financial crises; continuing to link performance to cuts in funding is unlikely to encourage positive change. The Collaborative Working Centre has undertaken considerable work on ensuring contract management arrangements are regularly monitored (see below).

CASE STUDY

Collaborative Working Centre: encouraging effective contract governance

The Collaborative Working Centre (CWC) is the consultancy arm of Constructing Excellence and was set up to provide advice on procurement and contract governance, particularly in long-term and framework contracts. Its team supports a range of projects in around 40 local authorities – including housing, education, waste and highways. It makes clear that effective procurement contract governance cannot be left to chance.

Ensuring effective procurements requires clear identification of outcomes, costs and performance. CWC stresses the benefits of the sorts of framework agreements which provide continuity of work and allow companies to build efficient supply chains.

It believes that contracts must be written to ensure continued co-operation, with a clear allocation of risk and reward. Roles and responsibilities need to be

demarcated and performance measurements established from the outset.

Sharing best practice in contract governance is a major part of CWC’s work. One model developed by the centre is a convergence programme in the housing sector, which allows London boroughs to sign up to best practice contracts.

CBI RECOMMENDATIONS

- Commissioners and suppliers need to build on existing best practice to develop a shared understanding of how to contract for the delivery of complex outcomes. Both should work together to produce a code of practice which sets out the actions for making partnership working a success
- 4ps should ensure that projects over a certain size in local government undergo gateway review processes. In the case of smaller projects, reviews should take place internally. Gateways should start early to ensure projects have the support they need from the start
- Local authority commissioners and suppliers must work together to ensure that contract management arrangements are built on trust and must be mutually beneficial to both parties. All aspects of the contract, including the relationship between supplier and client, must be closely audited.

5 New skills across all sectors are needed to make change a success

Harnessing markets and improving delivery needs skilled commercial and procurement staff who are able to complete deals. This means more than running procurement processes well – it involves the full range of other delivery skills such as project management, contract management, market management and model design. Crucially, it also means developing a better understanding of how to manage risk:

For commissioners, risk management requires an understanding of the commercial risks and constraints faced by suppliers. As one public sector interviewee explained, a supplier whose costs are too low may run into commercial problems later on. This could seriously damage the partnering relationship and consequently the quality of the service being delivered.

For suppliers, risk management means clearly demonstrating an understanding of the unique position of local authorities. Local government often believes suppliers do

not always fully understand the constraints it is under and the risks that result – for example, how political decisions drive policy agendas, which then impact on decisions about services. It is clear suppliers need to better appreciate how local government is ultimately accountable to the local taxpayer for how a service is performing. As one local authority chief executive stated: *“It is not the service provider who will be voted out. That is a risk we cannot transfer”*. Similarly, politicians must understand the impact of their decisions on existing arrangements with suppliers. A reduction in budgets will have implications for the service a supplier is able to offer.

To manage competitive markets effectively, local government commissioners must become commercially adept. One head of procurement stated: *“Once the commercial expertise is there, you are three quarters of the way towards a successful procurement”*. In larger councils, which are likely to go through complex procurements more often, it makes sense for this expertise to be available in-house. The model used by Leeds City Council (see page 16) is a good example of what form this might take.

Where local authorities need in-house commercial capability, this is most effectively achieved through recruitment. Secondment programmes from the private sector have delivered some success, but do not provide the sustainable arrangements local government requires. For authorities unable to recruit permanent staff from the private sector due to limited resources, other options should be considered – for example, when procuring a large facilities management contract recently, Croydon Borough Council recruited a project manager from 4ps.

Large and complex procurements are rare for most smaller local authorities. Interviewees from smaller authorities made it clear that the availability of commercial expertise via the RCEs should be a priority. Some RCEs may be able

“Once the commercial expertise is there, you are three quarters of the way towards a successful procurement.”

CASE STUDY

Leeds City Council: growing a skills base in PPPs

Leeds City Council is committed to delivering continuous service improvements. In 1998, a small unit was established within the council, responsible to a chief officer-led project board, to manage its second PFI school project. The contract was signed in October 2001 after a 15-month negotiation with the preferred bidder.

Since that time, the council has successfully bid for a further three schools projects and signed the largest PFI street lighting deal in Europe to-date. As a consequence the skills and resources available in the PPP unit have grown significantly supporting a wide portfolio, including housing, leisure and social care projects. To date, the team has secured around £800m of capital investment and is expected to reach a target of £1bn of investment over the next two years.

With a beacon status award, the unit has a wide strategic remit from assisting in submission of formal business cases to sponsoring government departments and managing framework contracts with legal, financial and technical advisers.

The advantage to the council of having this in-house resource is recognised nationally, and in 2006 the team won two public private finance awards for the best public sector team and best government agency team. The unit is available to support all the other council departments when needed. Other council departments can buy the services of the unit as they would an external consultancy, but the unit understands exactly what they need because it is in-house.

The unit is clear about the need to know exactly what it wants from the market

and the market knows how to compete and price for the council's projects. Equally important is understanding how the market operates and what its capacity is in order to control deal flow and to allow projects to move at a speed which contractors and their sub-contractors can deliver. The unit recognises the need for effective and transparent contract governance arrangements in order to get the most out of their PPP and PFI contracts.

The PPP unit has developed unique corporate governance arrangements which are recognised as best practice. These are characterised by establishment of responsibilities for all partners, clear arrangements for accountability and well-informed and transparent decision making.

to develop their role as procurement hubs,²⁰ providing roving experts for deployment across the region when required. This would give staff with a particular expertise the opportunity to move around the region and develop their careers. But given resource constraints, the immediate priority for the RCEs should be to offer local commissioners from smaller councils access to framework agreements with legal, financial and other specialist consultants.

Support from the RCEs would be particularly helpful in procurements involving more than one local authority or which bridge geographical boundaries. In order to make commissioning across several organisations effective there needs to be one visible commissioning team, made up of individuals from all the agencies looking to commission a service. This ensures services are commissioned in a cost-effective way. For suppliers, it provides confidence and

clarity about the client undertaking the commissioning. Having a cohesive commissioning team also helps define shared objectives and outcomes. The RCEs could play a role in co-ordinating these teams.

The government is clear that the RCEs will continue to be the principal change agents in local government: we recommend their role is strengthened to allow them to foster new thinking. Resources must be allocated to priority projects and project plans developed with the lead authority, setting out respective obligations and responsibilities of each.

Councils and their partners have the opportunity to improve the quality of local public services and provide citizens and taxpayers with greater choice and more innovative services. Grasping this opportunity for change will take courage and

commitment from the local government community and from suppliers. This brief demonstrates that, only by working together, will commissioners and suppliers be able to establish and maintain the competitive markets needed to ensure that the right provider is delivering a service and that effective procurement and contract management practices are delivering value for money and high quality outcomes.

CBI RECOMMENDATION

- The Communities and Local Government department should strengthen the role of the RCEs so they can provide smaller councils with the commissioning expertise when required, through framework contracts with legal and commercial experts. The RCEs should be given more powers to develop delivery plans with authorities in order to take forward innovative projects.
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Footnotes

- 1 *Place-shaping: a shared ambition for the future of local government*, Lyons Inquiry into Local Government, March 2007
- 2 *Strong and Prosperous Communities: The Local Government White Paper*, DCLG, October 2006
- 3 *Closer to people and places: a new vision for local government*, LGA, May 2006
- 4 The final brief is the culmination of work undertaken by the CBI and does not necessarily reflect the views of the organisations mentioned
- 5 *National Prosperity, Local Choice and Civic Engagement*, Lyons Inquiry into Local Government, May 2006
- 6 *Making Place-Shaping A Reality*, CBI and LGA, December 2006
- 7 Quoted in *The Collaborative State: How working together can transform public services*, Demos collection 23, 2007 (www.demos.co.uk)
- 8 An independent commission, chaired by Lord Best, LGA President, was set up in September 2006 by the LGA to look at its relationship with government, its members and partners. The commission published its conclusions and recommendations in March 2007
- 9 *Developing the local government services market to support a long-term strategy for local government*, DCLG and PricewaterhouseCoopers LLP, November 2006
- 10 In January 2006, the CBI published *A fair field and no favours: competitive neutrality in UK public service markets*, which highlighted the most common barriers to markets which are neutral between all types of provider
- 11 As part of the National Procurement Strategy for Local Government, now in its final year, authorities have been encouraged to develop 'how to sell to the council' guides. Many are now taking this a step further and developing interactive ways for suppliers to engage with local opportunities
- 12 The e-Business Builder is an electronic portal which allows suppliers to advertise all sub contracting opportunities so that local business can register an interest in particular contracts
- 13 Socitm is the professional association for public sector ICT management
- 14 In its white paper, the government announced an intention to revise the best value regime. Enabling legislation was proposed in the Local Government and Public Involvement in Health Bill, December 2006
- 15 *Empowering neighbourhoods: delivering better local services for local people*, CBI, July 2006
- 16 *Public services matter: sustaining reform through effective partnership*, CBI, September 2006
- 17 The Future Services Network is a coalition between the CBI, the National Consumer Council (NCC) and the Association of Chief Executives of Voluntary Sector Organisations (ACEVO) to campaign for more user-focused services, www.futureservicesnetwork.org.uk
- 18 *Improving delivery: Realising best practice in procurement and contract management*, CBI, November 2006
- 19 Ibid
- 20 The CBI recommended setting up procurement hubs in *Improving delivery: realising best practice in procurement and contract management*. In a recent study on developing local government services markets as part of Local:Vision, the DCLG proposed developing these hubs

Mission

CBI Public Services Strategy Board – transforming public services

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