

Truro City Council

PROCUREMENT STRATEGY

The purpose of this document is to set out the principles by which the Council will determine how to achieve best value in the purchase of its services.

The Council's Standing Orders on Contracts is the foundation upon which the Procurement Strategy is based. Standing Orders lay out the process by which the City Council will acquire the supply of goods or materials or the execution of works, It provides details in respect of the tendering procedures and the thresholds which apply for the purchase of works, goods, materials, activities or related services.

Principles of Good Practice Procurement

The Principles of Good Practice Procurement is provided to enable those involved in a Best Value Review process to understand and decide on the different options that might be used to deliver the service. Best Value may not always mean the cheapest. Quality products for services that may cost more initially in the longer term may prove to be a better option and thus better value. As such, when considering good procurement practice it is necessary to take into consideration:

- (i) The national and international legal requirements applying to the City Council.
- (ii) The strategic longer term approach — examining the objectives of the service as well as the extended projected costs.
- (iii) How the service will be delivered in the future to achieve the best standard of performance.
- (iv) Ensure all realistic alternative options have been explored and that there is evidence to support the decision that is made.
- (v) There is clarity about the overall specification and the outputs and outcomes that are expected or sought. Review related services and activities together so that the scope for improvement can be maximised and the cost of achieving improvements is kept to a minimum.
- (vi) The scope for cross agency work is explored.
- (vii) There has been research and consultation with the market to establish what the private and voluntary sectors, customers and staff expect from the service and their considered required outputs and outcomes.
- (viii) Whether to continue providing the service in-house, in partnership, or to use external providers, by effectively appraising the options.
- (ix) Seek and encourage innovation to discover gradual changes and improvements in quality performance and costs.

- (x) Seek appropriate legal, financial and other specialist advice early in the procurement process.
- (xi) Recognise and manage risk, account for market trends, assess and recognise the present worth of assets and recognise the commercial aspects of contracting.

Procurement Options

There are a number of options that need to be considered which reflect the principles of good practice. Any decision about what is, or is not going to be Best Value service must, therefore, be made in the context of:

- (i) The City Council's long term objectives and cross-cutting policies
- (ii) Relationships between the City Council and other organisations
- (iii) Relationships across services within the City Council
- (iv) Knowledge of the views and requirements of local residents and other stakeholders
- (v) Knowledge of the achievements of other service providers and the market
- (vi) The long term impact of decisions (e.g. financial and environmental)
- (vii) The City Council's duty to secure Best Value

It is considered there are six broad choices of service provision options. These are:

- (i) Do not provide service
- (ii) Provide the service in-house
- (iii) Enter into a joint venture with a third party to jointly provide the service
- (iv) Market test
- (v) Externalise the service to a third party
- (vi) Provide an alternative service to achieve the same objectives

In order to proceed it is, therefore, necessary to decide which option should be carried out. It is suggested that as a simple exercise in determining the appropriate methodology that the following flow chart be considered.

Should the Council be responsible for this activity now/in the future	NO	®	Pull out or Substitute
	®		
YES	TM		
Is there a policy reason why the Council must perform this activity	YES		In-house improvement of core policy
	®	®	
NO	TM		
Is there evidence that the Council is successful and competitive at this activity	YES		Improved and improving in-house provision
	®	®	
NO	TM		
Can the Council make the necessary in-house changes	YES		Use market testing to challenge improvements
	®	®	
	TM		
	NO		
Use outside resources to achieve the Council's objectives. Externalise, agreements, hybrid options		®	Implement Monitor Access Review

Pull Out

When considering future investment in services, goods or materials it may be more appropriate for the Council to pull out altogether.

Pulling out of a service or activity may be appropriate when:

- Services or activities are no longer needed at all
- The service or activity makes no contribution to strategic objectives of the Council
- There is no demand for the service/activity
- Stakeholders agree that the costs of the service outweigh the benefits
- It is hard to justify spending taxpayers money on the service
- The benefits of pulling out are greater than the costs
- Useful assets could be diverted to other purposes, or sold
- An alternative service (internal or external) would meet the objectives better than the service under review.

In most cases the objection to pulling out is that the Council is subject to statutory duties to provide the service. Where this objection is used, the review should go back to the first principle and ask, "*What is the Council required to do?*" If most of the other signs still show pull out as the best option the Council should consider:

- Substitution, which may achieve the same as pull out
- Apply to the Secretary of State for relaxation of the statutory requirements. In this instance a strong case will need to be advanced

Improving In-House Efficiency

Even if the most appropriate option is to continue to provide the service in-house, it is likely that some improvements will be required particularly where performance management and associated arrangements are concerned. The in-house approach is likely to be a viable option when the review collects evidence that most of the following are true:

- The in-house option is already delivering economic, efficient and effective service at a level that matches both local needs and external comparators

- The in-house team can make necessary improvements to meet the Council's future targets and sustain the required level of performance and improvement
- There is no appropriate market for the service and one cannot be developed
- The risks and impact of failure are so high that the Authority wishes to maintain a high level of control over the service or activity
- The function cannot legally be delegated to another provider
- The potential economies of scale or investment offered by other options are outweighed by transaction and process costs
- The existing external providers have not been able to meet the Council's requirements or are unwilling to participate in future service developments and re-design

Improving in-house arrangements is most suitable if:

- The existing internal service is, or close to, meeting local targets and national standards
- There is no supply market
- Cost of externalisation is likely to prove to be extremely high
- High impact if service fails

Improving in-house service arrangements is less suitable if:

- For existing internal services
- The need for external investment
- Active, competitive, market with established suppliers
- Services easy to specify and monitor
- Market can be stipulated and developed

Even if the likely Best Value option is to improve in-house service provision arrangements, it may still be necessary to implement major changes. Some of the issues that will need to be considered:

- How can accountability for Best Value service delivery be effectively delegated to operational managers?
- How can service standards and improvement targets be defined, effectively implemented and maintained?
- How can the performance of other providers be matched or improved upon?
- How will the service delivery be monitored and controlled and when will the service next be subject to full review?
- How can it be ensured that service managers and staff operate in an effective way and that they are focused on achieving continuous improvement?

In order to reinforce and maintain a continued and demonstrable commitment to Best Value in-house services the Council should:

- Introduce client/contractor splits where appropriate
- Ensure that the four C's (challenge, compete, consult, compare) approach becomes an important element in the operational culture of the service
- Develop a quality and performance culture within the Council and in a particular service
- Consistently use established and appropriate management techniques such as business planning, performance management, activity based costing, quality systems and the like to keep the service on target at all times.
- Develop a quality and performance culture within the Council and in particular within the service, using service quality techniques aimed at staff involvement and attention to management information systems.

All these approaches have their costs and benefits and it is important to balance these and be able to demonstrate the added value achieved.

Joint Ventures

Whether this is through joint commissioning or partnership, the Council has to determine whether this is the most appropriate vehicle to achieve Best Value. Where joint commissioning is concerned, the association ceases once the contract is completed and the desired result has been achieved. Where partnerships are concerned a longer term relationship is sought in order to sustain on-going commitment and achieve longer term aims. These apart, there are many similarities between the two forms of joint venture. In either case the acid test for a suitable joint venture is:

- Both (all) parties involved gain a benefit from the arrangement
- Services are provided from a single point e.g. a one-stop shop or a call centre
- Participating organisations are willing to bury their separate identities in the interest of the joint service
- Financial and other risks can be shared on an equitable basis
- Sharing resources, staff etc will produce significant economies and improved quality
- All participating organisations require the same or similar service
- Clear lines of responsibility and accountability are identified.

By the same token the joint venture is vulnerable and less suitable if:

- Organisational identities and imperatives are more important than a seamless service
- There are no obvious and willing partners
- Legal or other constraints cannot be overcome

Clearly the key issue in the success of any joint venture is a challenging environment to develop services. In taking this route it is necessary to consider the following:

- Is a partnership approach the best way of dealing with the issue to be addressed?
- Do the prospective partners have a clear and shared vision of the benefits to be achieved?
- Are the goals of the prospective partner's compatible?
- Is there a genuine commitment from the participating organisations?
- Do all parties have a clear understanding of what is required, both in terms of generalities as specifics?
- Is there a commitment to open communication?
- Will the anticipated benefits outweigh the likely costs?
- Are all the partners in the joint venture clear on the role that they are expected to take, the resources they will contribute and how they will account for the success of the service?

Market Test

It is recognised that the market test approach is the one most similar to compulsory competitive tendering (CCT) and is considered a "half way" arrangement between improving the in-house provision and externalisation. It will be the most likely option when:

- There are doubts about the ability of the in-house operation to develop and sustain improvements in value for money and service quality without a market test
- There are disagreements within the Council whether the in-house option or externalisation will give Best Value and best results
- The Council has the skills and resources to put into an effective market testing exercise

In the first instance it will be necessary to establish whether a market exists and whether there are external organisations which can provide the service required. Thus there will be a need for market testing. It will be necessary to understand the competition process and identify in the market place there is active competition between a number of competent and capable organisations who can deliver the service. It will be necessary to determine the risks, which may necessarily be transferred, and whether any organisation vying for the service is capable of picking up that risk or reducing it.

Where no markets currently exist there will be a need to find ways of stimulating the market in relation to the particular service being reviewed. Some ways of doing this are indicated below:

- Hold discussions with selected public, private and voluntary sector providers. This is known as soft market testing and, issues to consider will include — the best means of packaging the service, whether there is likely to be a service provider who is able to carry out all the required service or will there be a need to break it down into more manageable packages, what the size and scope of these packages might be.
- Send questionnaires to existing and potential providers to ask how they could add value
- Ascertain which other Councils have contracted services from particular providers and seek guidance from them.
- Consider breaking down service elements and re-packaging them. If it becomes apparent that a market does not exist in relation to a particular service, can the service be broken down into smaller elements that will appeal to different sections in the market. Such an approach is likely to be more time consuming and will involve greater supervision and monitoring needs. Nonetheless it is an option.
- Hold discussions with providers who offer services in closely related areas to establish if they could expand into the service area under review.
- Approach organisations and associations such as the Chamber of Commerce, and professional and trade associations to establish if they know of any new companies looking to break into the service area under review but, may not feel ready to take on a major contract.
- Explore supply markets to establish what service developments are anticipated in response to best practise, legislation or the views of service users and consider new combinations of service elements which the market suggests could deliver Best Value.

In taking this route it is necessary to be aware that it can have an effect on staff attitudes and morale during the market testing exercise. If the results of the market test identify the opportunity to externalise how will staff feel about being transferred after the failure of an in-house bid?

Externalisation

Service provision in this instance is via external organisations which compete to do the work. Management and co-ordination is through the works specification, which describes the work to be done and the contract conditions that form the basis of the relationship between the client and service provider.

The review team is likely to suggest externalisation of the service or activity when there is evidence that:

- In-house provision is demonstrably poor and improvements are impossible, unlikely or too expensive

- The market place offers products which wholly or substantially meet the Council's requirements at lower cost than the alternatives
- There will be effective competition because there is sufficient number of potential bidders able to offer the relationship and the services the Council requires
- Alternative providers can offer economies of scale, scope and investment as well as effective management of risks
- The process and transaction costs do not exceed the benefits to be gained by externalisation, for example the cost of tendering.

In summary, externalisation is more suitable if

- There are existing internal services where internal supplies are thought inappropriate
- There is a clear client/provider relationship
- There is an active, competitive market with established suppliers
- There is evidence that the benefits of using the market outweigh the costs
- There are services that can be readily specified and performance monitored

Externalisation is less suitable if:

- Internal service management is demonstrably better value
- Opportunists or monopolies dominate the market
- Service is difficult to specify and monitor
- Other methods of provision offer better value

The market place consisting of other public sector, private sector and non-profit organisations can offer six areas of benefit when competing for contracts and these benefits can occur singularly or in combination. These benefits are:

- Economies of scope as commercial and not for profit organisations concentrate on their specialism or areas of expertise
- Economies of scale as commercial and not for profit organisations use their size and resources to cover variations in the level of work and/or reduced unit costs

- Innovation and investment where commercial and not for profit organisations develop and invest in more efficient technologies and techniques, free from constraints that can surround the City Council.
- Effective management of risk, where the risks associated with the service can be transferred to an organisation better able to carry them
- Access to investment and other funds that may not be available to the City Council
- Opportunity to stimulate or influence market developments, where external organisations may be more skilled and have more opportunity to do this.

Substitution

This arrangement is not dissimilar to “pulling out”. The Council ceases to be involved in the provision of the service, however, whilst “pulling out” the Council may work out a minimal succession strategy with alternative suppliers, the substitution option may leave the Council with a residual role, such as a seat on the management board or by subsidising services. Substitution could be an option when a review finds one or more the following:

- The market already provides the services or activities under consideration in competition with the City Council the Council can use regulatory instruments, residual rights or non-contract mechanism to ensure that appropriate standards are achieved
- There are non-profit organisations with special skills or expertise able and willing to take over the management and delivery of services on behalf of the local communities or service users and the Council is willing to enter into an agreement with them that is not a service contract.
- The Council can identify other responsible bodies capable of providing the service and can thus delegate responsibility accordingly.

Substitution is a suitable option if:

- The activities or services provided by another linked organisation fit with the Council’s overall objectives
- There is agreement on the level of accountability required between the Council and the linked organisation
- Local community groups already exist or are already being formed
- Community groups have or can be trained in necessary management skills
- There is evidence of organisation independence

Substitution is less suitable if:

- The Council already has clear objectives it wants to achieve
- The service is significant in possibly financially or operational terms and needs close management, specification and monitoring
- It would be more appropriate to make contracts or partnering arrangements with local or community businesses
- There is little or no community interest in service management and delivery
- There is an active supply market and no policy gain can be made by substitution.

As with the “pull out” option, when considering substitution the Council ceases to be involved in providing the service. With substitution the service continues as a going concern and there may be a need to consider the implications. Important questions that need to be answered include:

- Is the substitution of this service encouraged by law?
- Is another organisation providing the same service or something similar?
- What method of substitution is most appropriate? (e.g. operative, trade sale or stock market flotation?)
- Will the new arrangement be able to meet all the needs?
- Does substitution support other policy objectives?
- Can the substitute service exist without dependence on subsidy?
- Can the statutory requirements and the Council’s service objectives be met?

Hybrid

The hybrid option is where the Council decides that no single other option is appropriate. The service includes a variety of different types of activity or the Best Value tests applied to different parts of the service come up with different answers. Hybrid approaches should be considered if:

- A Best Value review identifies clear areas of in-house strength in the service that is otherwise weak, for example, a skilled, motivated staff working with inadequate resources
- The questions used to identify if another approach is appropriate reveal mixed answers, for example, some risks can be transferred to the private sector but others cannot
- A service is made up of component parts that involve clearly different activities, for example, bulk data processing and face to face interaction
- A service has to meet a range of different and potentially conflicting policy objectives, for example, maximizing income versus anti-poverty

- Some aspects of the service require specialist expertise which is difficult or uneconomic to recruit or retain.

The particular advance of the hybrid approach is that it demonstrates a rigorous approach to both service review and the action plan that derives from it. The hybrid is most suitable if:

- A service contains discreet aspects that have different Best Value tests applied to them, e.g. front desk staff and data processing
- Areas of excellence exist side by side with services that need considerable improvement
- Different elements make clearly different contributions to overall service delivery and Best Value
- There are a wide range of other user needs which are best met in different ways
- External resources can most effectively be used to support in-house services rather than compete with them

The hybrid option is less suitable if:

- The service is easy to specify and monitor
- The service is clearly defined as a single function service
- The service is made up of many elements that a hybrid approach could lead to an unimaginable complexity of contracts, arrangements and inter-dependencies
- Economy and effectiveness are served best by a single delivery organisation.